

CITY OF LEXINGTON, VIRGINIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2009

Prepared by:
C. F. Higgins, Jr., Finance Director

CITY OF LEXINGTON, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2009

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INTRODUCTORY SECTION



December 1, 2009

The Honorable City Council
City of Lexington, Virginia

The Comprehensive Annual Financial Report (CAFR) of the City of Lexington, Virginia for the fiscal year ended June 30, 2009 is hereby submitted. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the government. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and has been reported in a manner designed to present fairly the financial position and results have been included. Also, additional data is provided in the City Management's Discussion and Analysis of operations of the various funds and financial statements of the government. All disclosures necessary to enable the reader to gain an understanding of the government's financial activities analysis narrative overview are included with this report.

This report has been prepared following the guidelines recommended by the Government Finance Officers Association (GFOA) and the Governmental Accounting Standards Board (GASB). Also, this report is in accordance with uniform financial reporting standards for counties, cities, and towns issued by the Commonwealth of Virginia's Auditor of Public Accounts (APA). Further, this report is in conformity with the provisions of the Single Audit Act of 1996 and U. S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations.

This report includes all funds of the City of Lexington including four separate component units. Component units are legally separate entities for which the primary government is financially accountable. The Rockbridge Area Recreation Organization (RARO) provides recreational activities for all age groups in the Rockbridge County area. RARO functions independent of the City and serves under a seven-member board of directors. The City provides financial services to RARO and this report includes RARO as a separate component unit.

A second separate component unit is the Lexington School System that consists of an elementary and middle school. Secondary education is provided jointly by Rockbridge County and the City through a contractual agreement. City Council appoints a five-member school board to administer the City school operations.

A third component unit is the Central Dispatch that provides E-911 dispatch for fire, rescue, and police services in Rockbridge County and both the City of Lexington and Buena Vista. The Rockbridge County Sheriff's department is not directly served under this center. The Central Dispatch serves under an executive director that is appointed by an independent seven-member board. The Central Dispatch regional board includes the City Manager and Police Chief of both cities and the Rockbridge County Administrator, as well as one representative each from the County Firefighters and Rescue Squad Associations.

A fourth component unit is the Regional Tourism Program serving the City of Buena Vista, the City of Lexington, and Rockbridge County. The regional tourism operation serves under an executive director that is appointed by an independent seven-member board. The regional board of directors includes two members appointed by each of the jurisdictions (one of which must be from a tourism related industry) for two year terms. One remaining member is to be appointed from a tourism related business by the six jurisdictional members for a two-year term.

The City provides a full range of municipal services including police, rescue and fire protection, sanitation services, the construction and maintenance of streets and infrastructure, community development/housing rehabilitation services, and support of cultural and recreational activities. In addition to general government services, the City also operates a water and sewer enterprise fund and four previously mentioned separate component units. The City serves as the fiscal agent for the first, third and fourth component units. However, the City services of the Rockbridge Regional Jail, Rockbridge Regional Library, Rockbridge Area Social Services, Maury Service Authority, Central Shenandoah Juvenile Detention Home and Industrial Development Authority have not met the established criteria for inclusion in the reporting entity, and accordingly are excluded from this report.

Economic Outlook

The City of Lexington is located in the Shenandoah Valley region of central Virginia and is blessed with both historic and natural beauty. These two attributes have helped Lexington to attract thousands of tourists and visitors annually. Two colleges, the Virginia Military Institute and Washington & Lee University, have also been instrumental in the rich cultural and educational heritage of Lexington. The City is ideally located to meet transportation needs, with the junction of interstates I-81 and I-64 just outside the city limits and the intersection of US highway routes 11 and 60 in the middle of the downtown business district.

As a result of an agreement between the City and Rockbridge County, Lexington is precluded from extending its current boundaries through conventional annexation. As compensation for the agreement not to annex, the two governments entered into a revenue sharing agreement based upon annual payments to the City of portions of economic growth related revenues collected by the County. This cooperative agreement continues to afford revenue growth necessary to meet the City's long-term financial needs, while minimizing property tax rate increases.

The City of Lexington is first and foremost a college town. As such, its economic base is fairly stable, with both schools maintaining strong financial bases and stable enrollments. The lack of available land for industrial development along with concentrated planning efforts has helped to create Lexington's reputation as a retail and service activity center for Rockbridge County and many surrounding communities. The City continues to look for ways to expand its economic base with limited space and land development capabilities, while focusing on the high quality of life and natural and historic charm to attract clean, environmentally safe, and compatible businesses to the City.

Major Initiatives

For the past year:

The City real estate tax rate increased from 0.60/100 to 0.635/\$100 of assessed value. This tax increase was needed to meet inflationary operational cost increases and to help offset State funding reductions. The City completed a reassessment of real estate in FY 06 with the next four-year reassessment scheduled for FY 10. Due to the slowing of the economy and the housing market, the City opted to delay the reassessment of real estate for one year until FY 10. The FY 09 current real estate tax collections translated to approximately \$57,116 per penny of the tax rate.

The City increased water and sewer rates by five (5) percent for all customers beginning July 2008. The City continues to annually increase water and sewer rates to minimize the impact of increased operating and capital costs for its water and sewer operations.

The City designates a two (2) percent transient occupancy tax to generate contribution revenue for the Virginia Horse Center Foundation. The revenue for FY 09 totaled \$68,067 and will be dedicated by the Virginia Horse Center for long-term debt service costs.

The City is jointly entering cooperative measures to improve the landscaping, signage, streets, sidewalks, parking, and storm drainage needs as plans are approved for new or renovated businesses within its commercial districts. Recommendations provided from a professional corridor study are providing the City a very good basis for making entranceway corridor improvements.

The City continues to follow a master plan developed by a steering committee to develop a new park and green space area next to its north corridor entranceway. This park project joins an old nature trail and will protect the historic appeal of this area for many years to come. Future plans include development of a pedestrian and bicycle route from both ends of the Veteran's Memorial Bridge across the Maury River to connect the Woods Creek trail to the Chessie Nature trail. Over the past year, the City was once again awarded the designation of Tree City, U.S.A. In 2006, the City was ranked in a Consumer's Report international survey as one of the top six small residential communities perfect for retirees. In 2009, Budget Travel magazine named the City to its top 10 list of America's coolest small towns.

For the future:

Lexington has other major capital and infrastructure demands which will need to be addressed in the near future. City Council annually adopts a five-year Capital Improvement Plan in order to prepare to meet these needs. Capital projects estimated to cost \$16.4 MIL over the next five years include traffic signal, bridge, street, sidewalk, and storm drainage improvements, entranceway and corridor improvements, education facility improvements, water and sewer utility line improvements, and recreational parks improvements. In February, the City and County completed a new \$29.3 MIL regional circuit court facility to include a new City owned parking deck.

Long-term debt financing of \$12 MIL in January 2006 funded a new parking deck in addition to the City's share of an upgraded circuit court facility that will serve both the City and Rockbridge County area. Also, the City anticipates issuing qualified school bonds for \$7.5 MIL to support a middle school renovation project that began construction in June 2009.

Presently, more than 48% of the City's real property is tax exempt. Also, competition for retail and business occupancy downtown versus county shopping areas challenges the City to search for additional revenue in order to offset the tax burden placed upon property owners and small businesses. The City Council has worked hard to improve its economy by partnering with the Chamber of Commerce to promote business in the downtown area of the City. The City also continues to participate in a regional economic development marketing effort provided by the combined efforts of five cities, six counties, and James Madison University located in the Shenandoah Valley area.

Budgetary and Internal Controls

The City administration is responsible for establishing and maintaining internal controls designed to ensure that the assets of the government are protected from loss, theft or misuse and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with accounting principles generally accepted in the USA. The internal controls are designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgements by management.

Compliance: As a recipient of federal and state financial assistance, the government of Lexington is also responsible for ensuring that adequate internal controls are in place to provide compliance with applicable laws and regulations related to those programs. These internal controls are subject to periodic evaluation by the City administration.

As a part of the government's single audit described earlier, tests are made to determine the adequacy of the internal controls, including that portion related to intergovernmental financial assistance programs, as well as to determine that the government has complied with applicable laws and regulations.

Compliance: As a recipient of federal and state financial assistance, the government of Lexington is also responsible for ensuring that adequate internal controls are in place to provide compliance with applicable laws and regulations related to those programs. These internal controls are subject to periodic evaluation by the City administration.

As a part of the government's single audit described earlier, tests are made to determine the adequacy of the internal controls, including that portion related to intergovernmental financial assistance programs, as well as to determine that the government has complied with applicable laws and regulations.

Budgeting Controls: Lexington maintains strict budgetary controls, the objective of which is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council. Activities of the general fund, capital projects fund, enterprise fund and the separate school component unit, are included in the annual appropriated budget. The level of budgetary control (this is, the level at which expenditures cannot legally exceed the appropriated amount) is established by function within an individual fund except for the four legally separate discretely presented component units. The governing body of each of these component units approves, recommends and controls the annual appropriations made for their respective budgets. City Council approves annual appropriations and quarterly amends appropriations for all funds except for the Central Dispatch, RARO, and the Regional Tourism component units.

Cash Management: The City maintains an aggressive Cash Management Program with the objectives of increasing non-tax revenues of the city government. The primary goals of the Cash Management Program are to maximize the amount of cash available, both to meet daily needs and to increase the amount available for investment, and to earn the maximum return on cash invested. Interest earnings of \$117,472 for governmental funds were equivalent to 2.0 cents on the City real estate tax rate for the fiscal year ended June 30, 2009.

Risk Management: The City is exposed to a variety of accidental losses and has established a risk management strategy that attempts to minimize losses and the carrying costs of insurance.

The City has a public safety committee continuously review City policy and procedure for public safety. Risk control techniques have been established to reasonably assure that the City's employees are aware of their responsibilities regarding personal safety and property loss exposures related to their duties. In a similar manner, risk control techniques have been established to reduce possible personal injuries to employees and citizens, and losses to property owned or under the control of the City. Furthermore, supervisory personnel are held responsible for monitoring risk control techniques on an operational basis.

Other Information

Independent Audit: State statutes require an annual audit by independent certified public accountants. This annual audit was performed by Robinson, Farmer, Cox, Associates. The auditors' report on the basic financial statements is included in the financial section of this report. The auditors' reports related specifically to the single audit are included in the Single Audit Section.

Award: As previously indicated, the Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Lexington for its comprehensive annual financial report for the fiscal years ended June 30, 1994 through June 30, 2008. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, the government published an easily readable and efficiently organized comprehensive annual financial report, whose contents conformed to program standards. This report satisfied both accounting principles generally accepted in the USA and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current comprehensive annual financial report continues to meet the Certificate of Achievement program requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgments: The preparation of this report on a timely basis could not be accomplished without the efficiency and dedication of the staffs of the Finance Department, Commissioner of Revenue, and the Office of the Treasurer. I would like to express our sincere appreciation to each employee of these departments. Appreciation is also in order for the firm of Robinson, Farmer, Cox, Associates. Last, I would like to thank the Mayor, members of the City Council, and the rest of City administration for their interest and support in planning and conducting the financial operations of the City in a responsive and progressive manner.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "C. F. Higgins, Jr.", with a stylized flourish at the end.

C. F. Higgins, Jr.
Finance Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Lexington
Virginia

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2008

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

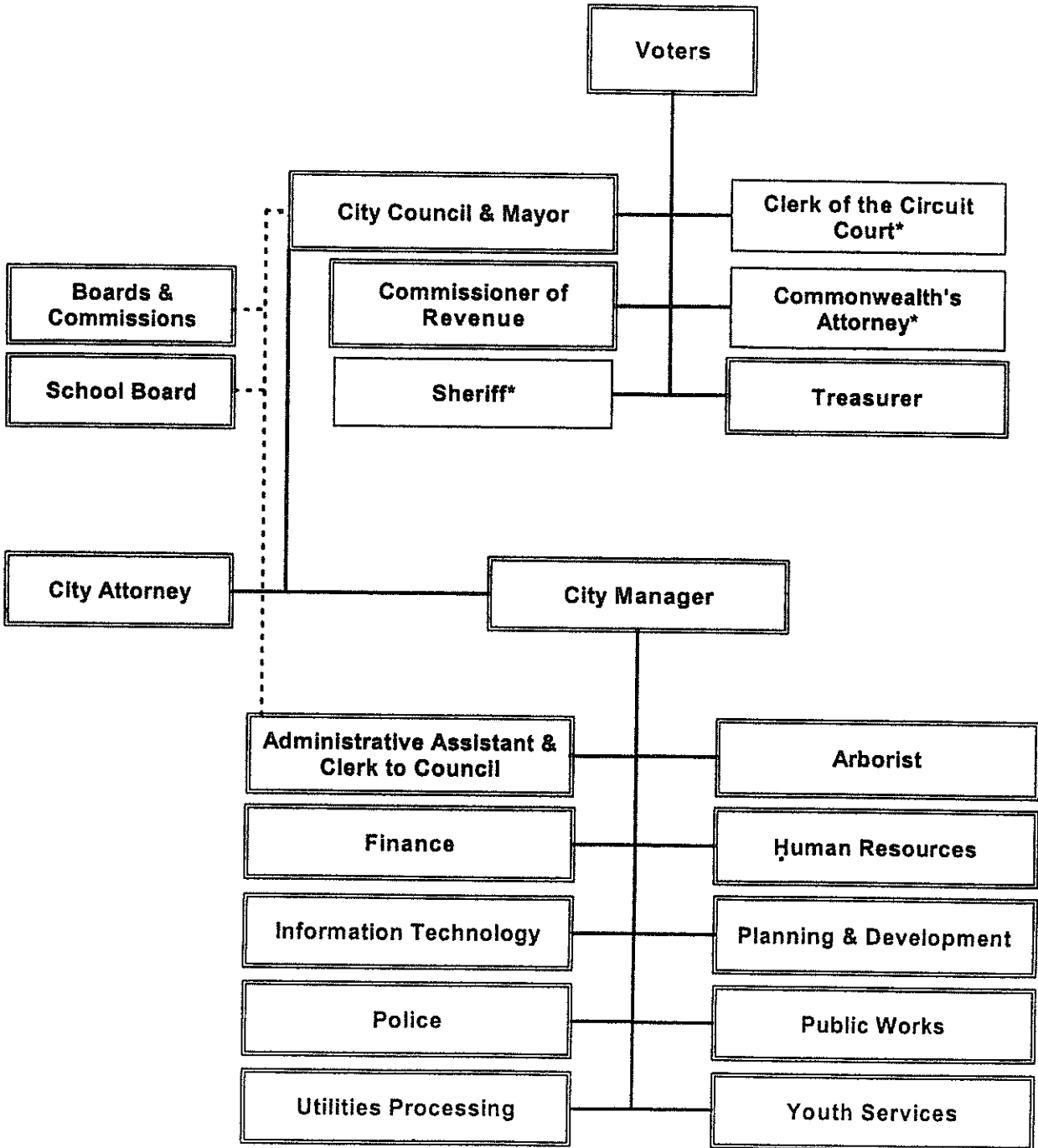


President

Executive Director

CITY OF LEXINGTON

Organizational Chart



*Shared with County

..... Appointing authority only

CITY OF LEXINGTON, VIRGINIA

JUNE 30, 2009

CITY COUNCIL

Mimi Elrod, Mayor
Jim Gianniny, Vice-Mayor
Marylin Alexander
R. David Cox
Frank Friedman
Bob Lera
Jack Page

SCHOOL BOARD

Leslie Straughan, Chairperson
Aaron Bruce, Vice Chair
Dean Knick
Dr. Kirk Luder
Leonard Stewart

CITY OFFICIALS

T. Jon Ellestad
Pat DeLaney
Karen T. Roundy
C. F. Higgins, Jr.
Lawrence A. Mann
Steven E. Crowder
David A. Woody
Bill Blatter
Rick Allen
Daniel E. Lyons

City Manager
City Treasurer
Commissioner of Revenue
Finance Director
City Attorney
Chief of Police
Director of Public Works
Director of Planning and Development
Director of Utilities Processing
Superintendent of Schools

FINANCIAL SECTION

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Independent Auditors' Report

THE HONORABLE MEMBERS OF CITY COUNCIL CITY OF LEXINGTON, VIRGINIA

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Lexington, Virginia, as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Lexington, Virginia's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Lexington, Virginia, as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 18, the City implemented GASB Statement No. 45, *Accounting and Financial Reporting for Employers for Post-Employment Benefits other than Pensions*, effective July 1, 2008.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2009 on our consideration of the City of Lexington, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, the budgetary comparison information, the schedule of Pension and OPEB Funding Progress, and the other required supplementary information as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Lexington, Virginia's basic financial statements. The introductory section, budgetary comparison schedules, combining and individual nonmajor fund financial statements, and statistical information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor funds financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Robinson, Turner, & Associates

Christiansburg, Virginia
October 31, 2009

Management's Discussion and Analysis

As management of the City of Lexington, we offer readers of the City of Lexington's financial statements this narrative overview and analysis of the financial activities of the City of Lexington for the fiscal year ended June 30, 2009. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal.

Financial Highlights

- The City of Lexington's governmental funds total revenues of \$13,154,969 are less than total expenditures of \$17,966,609 by \$4,811,640. The City purchased \$98,535 of equipment replacement items from fund balance designated for future equipment replacement needs. The City contributed an additional \$2,609,740 as the City's share of expenditures for a new regional courthouse. A new public parking deck needed for the regional courthouse incurred expenditures for \$1,575,703. The regional courthouse and parking deck expenditures are paid for from bond proceeds issued in January 2006. Also, the City appropriated \$965,137 toward the final courthouse expenditures from the General Fund undesignated fund balance. The courthouse project and parking garage construction contract totaled \$29,830,925 upon completion in February 2009.
- The assets of the City of Lexington exceeded its liabilities at the close of the most recent fiscal year by \$17,528,392 (*net assets*). A total of \$8,309,734 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- At the end of the current fiscal year, unreserved fund balance undesignated for the general fund is \$6,059,851 or 46% of total general fund expenditures for \$13,283,027 in the year ended June 30, 2009.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City of Lexington's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City of Lexington's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or declining.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenditures are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Lexington that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general and financial administration, judicial administration, public safety, public works, health and welfare, education, parks, recreation and cultural, community development, and nondepartmental. The business-type activity of the City is a water and sewer operation managed for the Maury Service Authority with the City responsible for water and sewer distribution to its customers.

The government-wide financial statements include not only the City of Lexington itself (known as the *primary government*), but also a legally separate school district, a regional tourism program, a central dispatch operation, and joint recreation activities. Financial information for these *component units* is reported separately from the financial information presented for the primary government itself.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Lexington, like other state and local governments, uses a fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City of Lexington maintains seven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, capital projects fund, the cemetery trust fund, and the discretely presented component School Board unit, all of which are considered to be major funds. Data from the other three governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City of Lexington adopts an annual appropriated budget for its general fund, special revenue fund, and capital projects fund. A budgetary comparison statement has been provided for these funds to demonstrate compliance with the budget.

Proprietary funds. The City of Lexington maintains one proprietary fund. An *enterprise fund* is used to report the functions presented as *business-type activities* in the government-wide financial statements. The City uses the enterprise fund to account for its water and sewer utility fund. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the City's water and sewer services.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *supplementary information* in the statistical section.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Lexington, assets exceeded liabilities by \$17,528,392 at the close of the most recent fiscal year.

A portion of the City's net assets (47 percent) reflects its unrestricted net assets of \$8,309,734. The City's investment in capital assets (e.g., land, buildings, improvements, machinery, equipment, infrastructure, and construction in progress), less any related debt used to acquire those assets that are still outstanding, reflects \$7,949,981. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The City's governmental activities net assets decreased \$2,108,134 for the fiscal year ending June 30, 2009. As previously mentioned, a good portion of this decrease (\$965,137) is attributable to the City funding final expenditures for a new regional courthouse and parking garage from the general fund unrestricted fund balance. Also, the City purchased 172 acres of land for \$694,565 that is adjacent to over 2,000 acres of land known as the Moore's Creek Dam property that provides a back-up water source for the City and Rockbridge County. Last, the City used \$125,000 from the general fund unrestricted fund balance to retire a loan obtained by this nonprofit group. In FY 08, this same nonprofit group gave the City a new indoor bubble pool valued for \$600,000. This new pool was constructed mostly from donations received by this nonprofit group using City land available next to the City's municipal pool at the Brewbaker Field Recreation Complex.

City of Lexington's Summary Statement of Net Assets
as of June 30, 2009 and 2008
(In Thousands)

	<u>Governmental activities</u>		<u>Business-type activities</u>		<u>Total Primary Gov't</u>		<u>School Board Component Unit</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Current & other assets	\$ 11,672	\$ 15,654	\$ 1,132	\$ 1,190	\$ 12,804	\$ 16,844	\$ 1,292	\$ 963
Capital assets	<u>18,719</u>	<u>16,677</u>	<u>1,864</u>	<u>1,855</u>	<u>20,583</u>	<u>18,532</u>	<u>2,795</u>	<u>2,792</u>
Total assets	<u>\$ 30,391</u>	<u>\$ 32,331</u>	<u>\$ 2,996</u>	<u>\$ 3,045</u>	<u>\$ 33,387</u>	<u>\$ 35,376</u>	<u>\$ 4,087</u>	<u>\$ 3,755</u>
Long-term liabilities outstanding	\$ 12,876	\$ 13,529	\$ 59	\$ 99	\$ 12,935	\$ 13,628	\$ 119	\$ 74
Other liabilities	<u>2,479</u>	<u>1,538</u>	<u>445</u>	<u>573</u>	<u>2,924</u>	<u>2,111</u>	<u>639</u>	<u>629</u>
Total liabilities	<u>\$ 15,355</u>	<u>\$ 15,067</u>	<u>\$ 504</u>	<u>\$ 672</u>	<u>\$ 15,859</u>	<u>\$ 15,739</u>	<u>\$ 758</u>	<u>\$ 703</u>
Net assets:								
Invested in capital assets, net of related debt	\$ 6,086	\$ 11,611	\$ 1,864	\$ 1,812	\$ 7,950	\$ 13,423	\$ 2,795	\$ 2,792
Restricted	1,268	1,435	—	—	1,268	1,435	—	—
Unrestricted	<u>7,682</u>	<u>4,218</u>	<u>628</u>	<u>561</u>	<u>8,310</u>	<u>4,779</u>	<u>534</u>	<u>260</u>
Total net assets	<u>\$ 15,036</u>	<u>\$ 17,264</u>	<u>\$ 2,492</u>	<u>\$ 2,373</u>	<u>\$ 17,528</u>	<u>\$ 19,637</u>	<u>\$ 3,329</u>	<u>\$ 3,052</u>

An additional portion of the City's primary government net assets (7 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of the primary government's *unrestricted net assets* (\$8,309,734) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City's primary government is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business like activities.

Governmental activities. Governmental activities for the City's primary government represent 86% of the City's net assets. Over the past fiscal year, the City revenues and expenditures for both governmental and business-type activities as well as the School Board component units are as follows:

**City of Lexington's Changes in Net Assets
as of June 30, 2009 and 2008
(In Thousands)**

	<u>Governmental activities</u>		<u>Business-type activities</u>		<u>Total Primary Gov't</u>		<u>School Board Component Unit</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Revenues:								
Program Revenues:								
Chgs. for svcs.	\$ 1,051	\$ 991	\$ 4,615	\$ 4,669	\$ 5,666	\$ 5,660	\$ 221	\$ 229
Operating grants and contributions	1,188	1,327	—	—	1,188	1,327	3,373	3,180
Capital grants and contributions	61		100	—	61	100	107	108
General revenues:								
Property taxes	4,337	4,141	—	—	4,337	4,141	—	—
Other taxes	3,061	3,078	—	—	3,061	3,078	—	—
Grants and contributions not restricted to specific programs	573	638	—	—	573	638	—	—
Other	<u>2,603</u>	<u>3,792</u>	<u>—</u>	<u>—</u>	<u>2,603</u>	<u>3,792</u>	<u>2,557</u>	<u>2,192</u>
Total revenues	<u>\$ 12,874</u>	<u>\$14,067</u>	<u>\$ 4,615</u>	<u>\$ 4,669</u>	<u>\$17,489</u>	<u>\$ 18,736</u>	<u>\$ 6,258</u>	<u>\$ 5,709</u>

	<u>Governmental activities</u>		<u>Business-type activities</u>		<u>Total Primary Gov't</u>	<u>School Board Component Unit</u>		
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Expenditures:								
General Gov't.	\$ 1,252	\$ 1,299	\$ —	\$ —	\$ 1,252	\$ 1,299	\$ —	\$ —
Judicial Admin.	2,813	3,252	—	—	2,813	3,252	—	—
Public Safety	2,684	2,425	—	—	2,684	2,425	—	—
Public Works	3,063	3,005	—	—	3,063	3,005	—	—
Health & Welfare	565	628	—	—	565	628	—	—
Education	2,553	2,187	—	—	2,553	2,187	5,981	5,758
Parks, Rec. & Cultural	871	672	—	—	871	672	—	—
Community Development	706	759	—	—	706	759	—	—
Nondepartmental	10	—	—	—	10	—	—	—
Interest on Debt	584	615	—	—	584	615	—	—
Water & Sewer Utility	—	—	4,496	4,477	4,496	4,477	—	—
Total Expenditures	<u>\$ 15,101</u>	<u>\$ 14,842</u>	<u>\$ 4,496</u>	<u>\$ 4,477</u>	<u>\$ 19,597</u>	<u>\$ 19,319</u>	<u>\$ 5,981</u>	<u>\$ 5,758</u>
Changes in net assets	-2,227	-775	119	192	-2,108	-583	277	-49
Net assets beginning of year	<u>17,264</u>	<u>18,039</u>	<u>2,373</u>	<u>2,181</u>	<u>19,637</u>	<u>20,220</u>	<u>3,052</u>	<u>3,101</u>
Net assets end of year	<u>\$ 15,037</u>	<u>\$ 17,264</u>	<u>\$ 2,492</u>	<u>\$ 2,373</u>	<u>\$ 17,529</u>	<u>\$ 19,637</u>	<u>\$ 3,329</u>	<u>\$ 3,052</u>

Governmental Revenues:

- Property tax collections are up 5% or \$187,589. The City increased real estate values attained from a reassessment of real estate properties in FY 06. The real estate tax rate was reduced as a result of the reassessment from \$0.70/\$100 of assessed value to \$0.56/\$100 of assessed value. City Council raised the tax rate of \$0.60/\$100 of assessed value to \$0.635/\$100 of assessed value to support the FY 09 budgetary needs. A four-year reassessment is scheduled to be completed in FY 10 to be effective in FY 11.
- Other local taxes are down \$17,602 or 1% for the current fiscal year ending June 30, 2009. The local sales and use taxes are down \$3,048 or 1%. The business license tax collections are down \$4,854 or 1%. Also, the communications sales and use tax is significantly down \$33,722 or 9% for the distribution received from the Virginia Department of Taxation. Last, the lodging tax revenue decreased \$2,554 or 1% and the meals tax increased \$36,899 or 6%. The City overall local taxes did well considering the deep recession that negatively impacted the state, national, and international economy.
- Most local revenue trends indicate the City experienced moderate decline in the local economy.
- The market interest earnings rate of return for investments drastically decreased attributing to a decrease of \$511,217 or 71% from use of money and property. A portion of the decrease is attributable to the City fully expending the bond proceeds issued to meet capital expenditures for a new regional courthouse and public parking deck.
- The City landfill fee revenue increased by \$17,686 or 12% as the result of increasing the landfill disposal fee from \$23 to \$29 per ton.
- Permits and licenses revenue decreased \$28,862 or 27% as the housing industry slowed significantly due to the national recession.
- To help offset inflationary costs of providing services the City increased rescue service fees significantly and added a ten percent across the board increase to commercial refuse collection fees. Also, increases were made to swimming pool admission fees and cemetery service fees.
- The City's major governmental sources of revenue are as follows:

	<u>Amount</u>	<u>Percent of Total Revenue</u>
General property taxes	\$ 4,438,289	34%
Other local taxes	3,060,864	23%
Revenue From Use of Money and Property	221,502	2%
Charges for services	847,968	6%
Miscellaneous	2,381,840	18%
Intergovernmental	1,821,467	14%

Governmental Expenditures:

- Increases in operational expenditures closely paralleled inflation and growth in the demand for basic services. The governmental expenditures totaled \$17,966,609 for the fiscal year ending June 30, 2009. The governmental expenditures include \$98,535 in equipment replacement expenditures from the designated equipment replacement fund balance.

- General government administration expenditures decreased significantly by \$122,020 or 9%. Most of this decrease is attributable to the purchase of a new taxes receivable and revenue accounting software package along with a cashiering module for \$148,750 last fiscal year that was a one-time purchase cost.
- The primary government's education expenditures increased \$366,650 or 17% from \$2,186,670 in FY 08 to \$2,553,320 in FY 09. The City's local support of schools increased somewhat due to the state funding composite index increasing from .3982 to .4040. Also, personnel salaries included an additional 2% increase to allow teacher salaries to become more competitive with the state average for teacher salaries.
- Judicial administration expenditures include \$2,609,740 in contractual expenditures for the City's share of expenditures for a new regional circuit court facility.
- Public safety expenditures are up \$273,041 or 11% from \$2,463,227 in FY 08 to \$2,736,268 in FY 09. Some of this increase is the result of the City adding an additional 2% salary increase for all City employees. The City purchased a police cruiser for \$21,472 and a parking enforcement vehicle for \$27,995. The fire department operating expenditures included for the first time additional costs using reserve funds received from contributions and donations for \$171,304. The reserve funds were used to purchase a new \$46,800 global positioning system for fire department vehicles and operations, to refurbish a fire truck for a cost of \$18,455, to pay off a bank loan for \$22,717 used to make an equipment purchase, and to pay legal expenditures of \$31,688. The fire department used the remainder of the reserve funds to support other operating expenditures at the department's discretion.
- Public works expenditures are down \$2,025,000 from \$6,651,379 in FY 08 to \$4,626,379 in FY 09. This decrease is attributable to less construction costs of \$1,575,703 for a new parking deck facility completed in February 2009 for a total cost of \$6,223,617. Also, public works capital expenditures included the installation of underground utility lines along the street next to the new regional courthouse and parking garage for a cost of \$145,909. An equipment replacement purchase for \$49,068 provided a new dump truck to support refuse collection operations. Last, a new computerized fuel dispensing system was installed outside the public works compound at the public works shop for \$95,648.
- Parks, recreation, and cultural expenditures are up \$744,384 or 124% from \$599,853 in FY 08 to \$1,344,237 in FY 09. The majority of this increase supported the land acquisition of 172 acres purchased for \$694,564. This land purchase acquired acreage adjacent to the City's Moore's Creek Dam conservation acreage totaling 2,546 acres. The City purchased the land to gain a right of way into the Moore's Creek Dam conservation acreage. The City began construction of new restroom facilities at the Brewbaker Recreation Field Complex for a cost of \$34,801.

Business-type activities. Business-type activities contribute to the City of Lexington's net assets by \$2,491,626 accounting for 14% of the total primary government net assets. The City increased water and sewer rates by 5% to support cash flow needs for both operating and capital expenses of the water and sewer enterprise fund. Total revenues of \$4,615,347 exceeded total expenses of \$4,496,535 by \$118,812 or 3% resulting in an increase in net assets.

Other significant items to note include:

- A new sewer jet with trailer cost \$33,438 .
- A new utility billing software package is reflected as construction in progress for \$56,763 and will be proven and accepted in FY 10.

Financial Analysis of the City's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$8,336,124, a decrease of \$4,821,776 in comparison with the prior year. A total of \$386,599 is reserved for the City's future General Fund equipment replacement purchases. The City reserved fire department funds totaling \$28,455 and first aid funds totaling \$240,058 to be used exclusively for the specific needs of the fire department or first aid subject to City Council's appropriation. A total of \$218,824 is reserved for the carryover of capital projects not completed as of June 30, 2009. A total of \$7,067,447 constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed for cemetery maintenance.

The general fund is the chief operating fund of the City of Lexington. At the end of the current fiscal year, unreserved fund balance of the general fund was \$6,842,571, a decrease of \$1,847,705 in comparison with the prior year. As previously noted, most of this decrease is attributable to two City purchases. First, the City used \$965,137 towards the final costs for a new regional courthouse and parking garage complex by using its unreserved fund balance. Also, the purchase of 172 acres of land adjacent to the Moore's Creek Dam acreage was purchased for \$694,565 using the General Fund unreserved fund balance. As a measure of the adequacy of this fund balance, it may be useful to compare unreserved fund balance to total fund expenditures and other uses of financing sources. Unreserved fund balance represents 45% or more than five months worth of total general fund expenditures and other uses of financing sources.

The City annually updates a five-year capital improvement plan and appropriates the funds necessary to support the ensuing fiscal year's capital projects. Capital projects for the water and sewer enterprise fund and the separate component units of the school, central dispatch, regional tourism, and recreation organization funds are appropriated within each respective fund. However, the City capital projects dependent upon general fund financial resources are appropriated in a separate capital projects governmental fund.

At the end of the current fiscal year, unreserved fund balance of the capital projects fund was \$224,876, a decrease of \$2,808,495. The City expenditures for a new regional court complex along with a new public parking deck attributed for the majority of the decrease in the fund balance as the City used the bond proceeds issued to support this project. Also, as previously noted, the City installed new restrooms at the Brewbaker Recreation Field Complex for a cost of \$34,801 and constructed underground utility lines along the street next to the new regional court and parking deck project for \$145,909.

Proprietary funds. The City's *proprietary fund* provides the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the utility fund (water and sewer services) at the end of the year amounted to \$627,408, an increase of \$66,611 or 12% in comparison with the prior year. Other factors concerning the finances of the proprietary fund have already been addressed in the discussion of the City's business-type activities.

Governmental Fund Budgetary Highlights

Differences between the original budget of \$14,986,504 and the final amended budget of \$20,873,560 reflects an increase in appropriation for \$5,887,056. Items of significance that are worthy to note are as follows:

- City Council carried over from FY 08 to FY 09 \$3,780,380 for ongoing projects or activities that could not be completed by June 30, 2008. Most of the carryover was for capital projects. Particularly, the regional courthouse complex and parking deck project carried over for \$2,821,346.
- Under public safety the City set up a new department for fire department reserve funds and appropriated \$171,305 as of June 30, 2009. This new department allows miscellaneous and contribution funds received by the volunteer fire department to be appropriated and expended exclusively for fire department needs.
- Public works division of expenditures added \$105,000 for the installation of underground utility lines for the street that will serve the new regional court complex. Also, \$30,000 is appropriated to provide an inundation study of a dam owned by the City.
- Under leisure services the City appropriated \$688,000 of general fund undesignated fund balance to purchase 172 acres of land. This land is adjacent to a large tract of acreage that contains a dam that the City owns in Rockbridge County. Also, the City appropriated \$125,000 to retire a nonprofit organization loan used to construct a new indoor pool facility that the nonprofit organization gave to the City as a gift in FY 08.
- The City received a \$10,000 federal grant and a \$7,500 contribution to support water quality improvement and water restoration efforts along a City creek.
- The capital projects fund needed an additional appropriation of \$165,000 from unrestricted fund balance to complete the new regional courthouse and parking garage complex.
- Under nondepartmental, the City appropriated \$10,081 and transferred \$22,819 to the school fund to set up reserve fund balances to meet the City and School System future liability for retiree health insurance benefits.

Capital Asset and Debt Administration

Capital assets. Governmental fund capital asset additions for \$7,351,465 included equipment replacement items for \$98,535. The equipment replacement items included a police cruiser, a parking enforcement vehicle, and a public works dump truck. Also, the City had construction in progress costs of \$34,801 for new restrooms at a public park and \$3,480 for the renovation of an historic house at another public park. Other significant acquisitions included the new public parking garage at a cost of \$1,575,703 that had \$4,647,914 of prior year construction in progress costs for a total capital asset addition of

\$6,223,617. Also, a new police digital repeater for \$15,293, a new public works computerized fuel dispensing system for \$82,409, a new fire vehicle and operations global positioning system for \$45,355, a new underground utility line project along a street serving the new regional courthouse and parking garage area for \$145,909, a land acquisition of 172 acres of land for \$694,564, and a gift of land from a state supported college valued at \$5,000, an additional \$188,276 for construction in progress costs for a middle school renovation project, for a total construction in progress cost of \$463,336 as of June 30, 2009.

**City of Lexington's Capital Assets
(net of depreciation in thousands)**

	<u>Primary Government</u>				<u>Component Units</u>			
	<u>Governmental activities</u>		<u>Business-type activities</u>		<u>Total Primary Gov't</u>	<u>School Board Component Unit</u>		
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Land	\$ 2,692	\$ 1,993	\$ —	\$ —	\$ 2,692	\$ 1,993	\$ 5	\$ 5
Buildings	9,480	3,410	—	—	9,480	3,410	2,216	2,356
Improvements other than buildings	791	844	144	151	935	995	—	—
Infrastructure	3,103	3,058	1,425	1,482	4,528	4,540	—	—
Machinery & Equip.	2,327	2,436	238	222	2,565	2,658	111	156
Construction in Progress	326	4,936	57	—	383	4,936	463	275
Totals	\$ 18,719	\$16,677	\$ 1,864	\$ 1,855	\$20,583	\$ 18,532	\$2,795	\$ 2,792

Additional information on the City of Lexington's capital assets can be found in Note 11 to the financial statements.

Long-term debt. The City issued \$12,000,000 in general obligation bonds on January 5, 2006 to fund the construction of a regional circuit court complex. As of June 30, 2009, the City expended all bond proceeds inclusive of interest earnings. At the end of the current fiscal year, the City of Lexington had total bonded debt outstanding of \$12,632,934. All of the City's debt is backed by the full faith and credit of the government.

**City of Lexington's Outstanding Debt
General Obligation Bonds**

	<u>2009</u>	<u>2008</u>
Governmental activities	\$12,632,934	\$ 13,322,292
Business-type activities	0	42,806
TOTAL	\$12,632,934	\$ 13,365,098

The City's total general obligation debt decreased by \$732,166 or 5% during the current fiscal year. The City maintains an "A1" rating from Moody's for general obligation debt. State statutes' limit the amount of general obligation debt a governmental entity may issue to 10% of its total

assessed valuation. The current debt limitation for the City of Lexington is \$60,058,336 which is significantly in excess of the City's outstanding general obligation debt.

Additional information on the City of Lexington's long-term debt can be found in Note 7 and 8 to the financial statements. Also, additional information can be found in the statistical section under Tables 12 through 15.

Economic Factors and Next Year's Budgets and Rates

As of June 2009, the unemployment rate for the City of Lexington is 12.2%. This exceeds the United States average unemployment rate of 9.7%, and the state's average rate of 7.3%.

During the current fiscal year, unreserved fund balance in the general fund decreased to \$6,376,000. The City of Lexington has appropriated \$416,339 of this amount for spending in the 2010 fiscal year budget. It is intended that this use of available fund balance will minimize the need to raise taxes or charges for services during the 2010 fiscal year.

The water and sewer utility fund rates were increased 10.0% for the 2010 budget year. These rate increases are necessary to meet inflationary cost increases as the City's large consumers continue to conserve on consumption.

Contacting the City's Financial Management

This financial report is designed to provide a general overview of the City of Lexington's finances for all those with an interest in the government's finances. Questions concerning any of the information should be addressed to the Office of the Finance Director, P. O. Box 922, City of Lexington, Virginia 24450.

BASIC FINANCIAL STATEMENTS

City of Lexington, Virginia
Statement of Net Assets
June 30, 2009

	Primary Government		Component Units				
	Governmental Activities	Business-type Activities	Total	School Board	Central Dispatch	Area Recreation Organization	Regional Tourism
ASSETS							
Cash and cash equivalents	\$ -	\$ 157,292	\$ 157,292	\$ 1,031,799	\$ 105,358	\$ 1,314	\$ 280,697
Cash in custody of others	219,723	-	219,723	-	-	-	-
Investments	8,041,416	-	8,041,416	22,945	-	-	-
Receivables (net of allowance for uncollectibles):							
Taxes receivable	774,686	-	774,686	-	-	-	-
Accounts receivable	294,962	972,935	1,267,897	-	87,420	29,270	8
Due from other governmental units	668,946	-	668,946	201,783	14,823	7,100	-
Prepaid expenses	178,535	1,073	179,608	35,298	193	-	160
Deferred charges	225,853	-	225,853	-	-	-	-
Restricted assets:							
Temporarily restricted:							
Cash and cash equivalents	-	-	-	-	-	13,151	-
Permanently restricted:							
Cash and cash equivalents	274,997	-	274,997	-	-	-	-
Investments	993,680	-	993,680	-	-	-	-
Capital assets (net of accumulated depreciation):							
Land	2,692,097	-	2,692,097	4,550	-	-	-
Buildings	9,479,439	-	9,479,439	2,216,584	-	-	-
Improvements other than buildings	790,567	143,895	934,462	-	-	-	-
Machinery and equipment	2,327,085	237,895	2,564,980	110,931	134,569	8,902	1,731
Infrastructure	3,103,065	1,425,665	4,528,730	-	-	-	-
Construction in progress	326,444	56,763	383,207	463,336	-	-	-
Total assets	\$ 30,391,495	\$ 2,995,518	\$ 33,387,013	\$ 4,087,226	\$ 342,363	\$ 59,737	\$ 282,596
LIABILITIES							
Accounts payable	\$ 254,815	\$ 415,028	\$ 669,843	\$ 180,017	\$ 38,899	\$ 9,106	\$ 6,464
Payroll liabilities	378,994	-	378,994	39,100	-	-	-
Cash overdraft	1,700,969	-	1,700,969	-	-	-	-
Contracts payable	-	-	-	375,591	-	-	-
Accrued interest payable	46,388	-	46,388	-	-	-	-
Unearned revenue	45,295	-	45,295	44,600	-	-	-
Deposits held in escrow	-	29,968	29,968	-	-	-	-
Deferred grant revenue	52,498	-	52,498	-	-	-	-
Long-term liabilities:							
Due within one year	717,230	5,890	723,120	9,560	2,850	2,411	1,559
Due in more than one year	12,158,540	53,006	12,211,546	108,985	25,651	21,697	14,032
Total liabilities	\$ 15,354,729	\$ 503,892	\$ 15,858,621	\$ 757,853	\$ 67,400	\$ 33,214	\$ 22,055
NET ASSETS							
Invested in capital assets, net of related debt	\$ 6,085,763	\$ 1,864,218	\$ 7,949,981	\$ 2,795,401	\$ 134,569	\$ 8,902	\$ 1,731
Restricted for:							
Pickrel Memorial - temporarily restricted	-	-	-	-	-	13,151	-
Perpetual care - permanently restricted	1,268,677	-	1,268,677	-	-	-	-
Unrestricted (deficit)	7,682,326	627,408	8,309,734	533,972	140,394	4,470	258,810
Total net assets	\$ 15,036,766	\$ 2,491,626	\$ 17,528,392	\$ 3,329,373	\$ 274,963	\$ 26,523	\$ 260,541

The notes to the financial statements are an integral part of this statement.

City of Lexington, Virginia
Statement of Activities
For the Year Ended June 30, 2009

Net (Expense) Revenue and Changes in Net Assets											
Functions/Programs	Program Revenues				Primary Government			Component Units			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	School Board	Central Dispatch	Area Recreation Organization	Regional Tourism
PRIMARY GOVERNMENT:											
Governmental activities:											
General government administration	\$ 1,251,664	\$ 56,990	\$ 191,198	\$ -	\$ (1,003,476)	\$ -	\$ (1,003,476)	\$ -	\$ -	\$ -	\$ -
Judicial administration	2,813,164	124,101	1,289	-	(2,687,774)	-	(2,687,774)	-	-	-	-
Public safety	2,684,360	410,053	247,012	-	(2,027,295)	-	(2,027,295)	-	-	-	-
Public works	3,062,678	364,816	527,042	-	(2,170,820)	-	(2,170,820)	-	-	-	-
Health and welfare	564,865	5,230	203,859	-	(355,776)	-	(355,776)	-	-	-	-
Education	2,553,320	-	-	-	(2,553,320)	-	(2,553,320)	-	-	-	-
Parks, recreation, and cultural	871,358	87,946	5,000	-	(778,412)	-	(778,412)	-	-	-	-
Community development	705,681	2,166	12,260	60,679	(630,576)	-	(630,576)	-	-	-	-
Nondepartmental	10,136	-	-	-	(10,136)	-	(10,136)	-	-	-	-
Interest on long-term debt	583,552	-	-	-	(583,552)	-	(583,552)	-	-	-	-
Total governmental activities	\$ 15,100,778	\$ 1,051,302	\$ 1,187,660	\$ 60,679	\$ (12,801,137)	\$ -	\$ (12,801,137)	\$ -	\$ -	\$ -	\$ -
Business-type activities:											
Utility Fund	\$ 4,496,682	\$ 4,615,347	\$ -	\$ -	\$ -	\$ 118,665	\$ 118,665	\$ -	\$ -	\$ -	\$ -
Total primary government	\$ 19,597,460	\$ 5,666,649	\$ 1,187,660	\$ 60,679	\$ (12,801,137)	\$ 118,665	\$ (12,682,472)	\$ -	\$ -	\$ -	\$ -
COMPONENT UNITS:											
School Board	\$ 5,981,392	\$ 221,571	\$ 3,372,695	\$ 107,479	\$ -	\$ -	\$ -	\$ (2,279,647)	\$ -	\$ -	\$ -
Central Dispatch	297,414	-	98,958	-	-	-	-	-	(198,456)	-	-
Rockbridge Area Recreation Organization	227,914	129,435	-	-	-	-	-	-	-	(98,479)	-
Regional Tourism	116,488	11,769	-	-	-	-	-	-	-	-	(104,719)
Total component units	\$ 6,623,208	\$ 362,775	\$ 3,471,653	\$ 107,479	\$ -	\$ -	\$ -	\$ (2,279,647)	\$ (198,456)	\$ (98,479)	\$ (104,719)
General revenues:											
General property taxes					\$ 4,337,004	\$ -	\$ 4,337,004	\$ -	\$ -	\$ -	\$ -
Other local taxes:											
Local sales and use taxes					791,395	-	791,395	-	-	-	-
Consumers' utility taxes					312,078	-	312,078	-	-	-	-
Business license taxes					602,665	-	602,665	-	-	-	-
Restaurant food taxes					633,501	-	633,501	-	-	-	-
Hotel and motel room taxes					204,461	-	204,461	-	-	-	-
Communications taxes					335,199	-	335,199	-	-	-	-
Other local taxes					181,565	-	181,565	-	-	-	-
Unrestricted revenues from use of money and property					221,502	-	221,502	3,272	600	367	-
Miscellaneous					2,381,840	-	2,381,840	129	50	18,566	1,529
Payments from the City of Lexington					-	-	-	2,553,320	181,284	78,718	170,980
Grants and contributions not restricted to specific programs					573,128	-	573,128	-	-	-	-
Total general revenues					\$ 10,574,338	\$ -	\$ 10,574,338	\$ 2,556,721	\$ 181,934	\$ 97,651	\$ 172,509
Change in net assets					\$ (2,226,799)	\$ 118,665	\$ (2,108,134)	\$ 277,074	\$ (16,522)	\$ (828)	\$ 67,790
Net assets - beginning					17,263,565	2,372,961	19,636,526	3,052,299	291,485	27,351	192,751
Net assets - ending					\$ 15,036,766	\$ 2,491,626	\$ 17,528,392	\$ 3,329,373	\$ 274,963	\$ 26,523	\$ 260,541

The notes to the financial statements are an integral part of this statement.

City of Lexington, Virginia
Balance Sheet
Governmental Funds
June 30, 2009

	<u>General</u>	<u>Capital Projects</u>	<u>Permanent</u>	<u>Total</u>
ASSETS				
Cash in custody of others	\$ -	\$ 219,723	\$ -	\$ 219,723
Investments	8,031,280	-	-	8,031,280
Receivables (net of allowance for uncollectibles):				
Taxes receivable	774,686	-	-	774,686
Accounts receivable	294,962	-	-	294,962
Due from other governmental units	647,054	21,892	-	668,946
Prepaid items	178,535	-	-	178,535
Restricted assets:				
Permanently restricted:				
Cash and cash equivalents	-	-	274,997	274,997
Investments	-	-	993,680	993,680
Total assets	<u>\$ 9,926,517</u>	<u>\$ 241,615</u>	<u>\$ 1,268,677</u>	<u>\$ 11,436,809</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 238,076	\$ 16,739	\$ -	\$ 254,815
Payroll liabilities	378,994	-	-	378,994
Cash overdraft	1,700,969	-	-	1,700,969
Unearned revenue	713,409	-	-	713,409
Deferred grant revenue	52,498	-	-	52,498
Total liabilities	<u>\$ 3,083,946</u>	<u>\$ 16,739</u>	<u>\$ -</u>	<u>\$ 3,100,685</u>
Fund balances:				
Reserved for:				
Perpetual care	\$ -	\$ -	\$ 1,268,677	\$ 1,268,677
Unreserved:				
Designated for equipment replacement	386,599	-	-	386,599
Designated for first aid and fire dept.	268,513	-	-	268,513
Designated for carryovers	127,608	218,824	-	346,432
Undesignated, reported in:				
General fund	6,059,851	-	-	6,059,851
Capital projects funds	-	6,052	-	6,052
Total fund balances	<u>\$ 6,842,571</u>	<u>\$ 224,876</u>	<u>\$ 1,268,677</u>	<u>\$ 8,336,124</u>
Total liabilities and fund balances	<u>\$ 9,926,517</u>	<u>\$ 241,615</u>	<u>\$ 1,268,677</u>	<u>\$ 11,436,809</u>

The notes to the financial statements are an integral part of this statement.

City of Lexington, Virginia
 Reconciliation of the Balance Sheet of Governmental Funds
 To the Statement of Net Assets
 June 30, 2009

Amounts reported for governmental activities in the statement of net assets are different because:

Total fund balances per Exhibit 3 - Balance Sheet - Governmental Funds	\$ 8,336,124
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	18,718,697
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	668,114
Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	10,136
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	(12,696,305)
Net assets of governmental activities	<u>\$ 15,036,766</u>

The notes to the financial statements are an integral part of this statement.

City of Lexington, Virginia
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2009

	<u>General</u>	<u>Capital Projects</u>	<u>Permanent</u>	<u>Total</u>
REVENUES				
General property taxes	\$ 4,438,289	\$ -	\$ -	\$ 4,438,289
Other local taxes	3,060,864	-	-	3,060,864
Permits, privilege fees, and regulatory licenses	79,233	-	-	79,233
Fines and forfeitures	124,101	-	-	124,101
Revenue from the use of money and property	212,817	-	8,685	221,502
Charges for services	847,968	-	-	847,968
Miscellaneous	2,381,840	-	-	2,381,840
Recovered costs	179,705	-	-	179,705
Intergovernmental revenues:				
Commonwealth	1,713,063	-	-	1,713,063
Federal	47,725	60,679	-	108,404
Total revenues	<u>\$ 13,085,605</u>	<u>\$ 60,679</u>	<u>\$ 8,685</u>	<u>\$ 13,154,969</u>
EXPENDITURES				
Current:				
General government administration	\$ 1,174,738	\$ -	\$ -	\$ 1,174,738
Judicial administration	203,424	4,185,443	-	4,388,867
Public safety	2,688,801	-	-	2,688,801
Public works	2,755,075	246,534	-	3,001,609
Health and welfare	565,015	-	-	565,015
Education	2,553,320	-	-	2,553,320
Parks, recreation, and cultural	1,287,543	56,694	194,911	1,539,148
Community development	696,579	-	-	696,579
Nondepartmental	94,762	-	-	94,762
Debt service:				
Principal retirement	689,358	-	-	689,358
Interest and other fiscal charges	574,412	-	-	574,412
Total expenditures	<u>\$ 13,283,027</u>	<u>\$ 4,488,671</u>	<u>\$ 194,911</u>	<u>\$ 17,966,609</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (197,422)</u>	<u>\$ (4,427,992)</u>	<u>\$ (186,226)</u>	<u>\$ (4,811,640)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ -	\$ 1,619,497	\$ 20,650	\$ 1,640,147
Transfers out	(1,650,283)	-	-	(1,650,283)
Total other financing sources (uses)	<u>\$ (1,650,283)</u>	<u>\$ 1,619,497</u>	<u>\$ 20,650</u>	<u>\$ (10,136)</u>
Net change in fund balances	\$ (1,847,705)	\$ (2,808,495)	\$ (165,576)	\$ (4,821,776)
Fund balances - beginning	8,690,276	3,033,371	1,434,253	13,157,900
Fund balances - ending	<u>\$ 6,842,571</u>	<u>\$ 224,876</u>	<u>\$ 1,268,677</u>	<u>\$ 8,336,124</u>

The notes to the financial statements are an integral part of this statement.

City of Lexington, Virginia
 Reconciliation of Statement of Revenues,
 Expenditures, and Changes in Fund Balances of Governmental Funds
 To the Statement of Activities
 For the Year Ended June 30, 2009

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds	\$ (4,821,776)
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which the capital outlays exceeded depreciation in the current period.	2,041,599
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(101,285)
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The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	689,358
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore are not reported as expenditures in governmental funds.	(34,695)
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Change in net assets of governmental activities	<u>\$ (2,226,799)</u>
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The notes to the financial statements are an integral part of this statement.

City of Lexington, Virginia
Statement of Net Assets
Proprietary Fund
June 30, 2009

	Enterprise Fund Utility Fund	Internal Service Funds
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 157,292	\$ -
Investments	-	33,081
Accounts receivable, net of allowance for uncollectibles	972,935	-
Prepaid expenses	1,073	-
Total current assets	<u>\$ 1,131,300</u>	<u>\$ 33,081</u>
Noncurrent assets:		
Capital assets:		
Buildings	\$ 113,405	\$ -
Less accumulated depreciation	(113,405)	-
Improvements other than buildings	442,708	-
Less accumulated depreciation	(298,813)	-
Machinery and equipment	367,014	-
Less accumulated depreciation	(129,119)	-
Infrastructure	3,299,903	-
Less accumulated depreciation	(1,874,238)	-
Construction in progress	56,763	-
Total capital assets	<u>\$ 1,864,218</u>	<u>\$ -</u>
Total noncurrent assets	<u>\$ 1,864,218</u>	<u>\$ -</u>
Total assets	<u>\$ 2,995,518</u>	<u>\$ 33,081</u>
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 415,028	\$ -
OPEB Liability	-	33,081
Compensated absences-current portion	5,890	-
Deposits held in escrow	29,968	-
Total current liabilities	<u>\$ 450,886</u>	<u>\$ 33,081</u>
Noncurrent liabilities:		
Compensated absences - net of current portion	\$ 53,006	\$ -
Total noncurrent liabilities	<u>\$ 53,006</u>	<u>\$ -</u>
Total liabilities	<u>\$ 503,892</u>	<u>\$ 33,081</u>
NET ASSETS		
Invested in capital assets, net of related debt	\$ 1,864,218	\$ -
Unrestricted	627,408	-
Total net assets	<u>\$ 2,491,626</u>	<u>\$ -</u>

The notes to the financial statements are an integral part of this statement.

City of Lexington, Virginia
Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Fund
For the Year Ended June 30, 2009

	Enterprise Fund Utility Fund	Internal Service Funds
OPERATING REVENUES		
Charges for services:		
Water and sewer revenues	\$ 4,615,347	\$ -
Total operating revenues	\$ 4,615,347	\$ -
OPERATING EXPENSES		
Administration	\$ 184,157	\$ -
Water treatment plant	622,747	-
Water treatment	4,798	-
Water distribution	910,952	-
Wastewater collection	1,614,740	-
MSA - Wastewater plant	947,359	-
Inflow and infiltration	35,393	-
Public Works Personnel	62,712	-
Internal services	27,318	-
Other post employment benefits	-	33,081
Depreciation	86,358	-
Total operating expenses	\$ 4,496,534	\$ 33,081
Operating income (loss)	\$ 118,813	\$ (33,081)
NONOPERATING REVENUES (EXPENSES)		
Interest expense	\$ (148)	\$ -
Income before contributions and transfers	\$ 118,665	\$ (33,081)
Capital contributions and construction grants		-
Transfers in	\$ -	\$ 33,081
Change in net assets	\$ 118,665	\$ -
Total net assets - beginning	2,372,961	-
Total net assets - ending	\$ 2,491,626	\$ -

The notes to the financial statements are an integral part of this statement.

City of Lexington, Virginia
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2009

	Enterprise Fund Utility Fund	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users	\$ 4,614,527	\$ -
Payments to suppliers	(3,062,513)	-
Payments to and for employees	(1,473,117)	-
Net cash provided (used) by operating activities	<u>\$ 78,897</u>	<u>\$ -</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers from other funds	\$ -	\$ 33,081
Net cash provided (used) by noncapital financing activities	<u>\$ -</u>	<u>\$ 33,081</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Additions to capital assets	\$ (95,606)	\$ -
Principal payments on bonds	(42,806)	-
Interest payments	(148)	-
Net cash provided (used) by capital and related financing activities	<u>\$ (138,560)</u>	<u>\$ -</u>
Net increase (decrease) in cash and cash equivalents	\$ (59,663)	\$ 33,081
Cash and cash equivalents - beginning	216,955	-
Cash and cash equivalents - ending	<u>\$ 157,292</u>	<u>\$ 33,081</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ 118,813	\$ (33,081)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	\$ 86,358	\$ -
(Increase) decrease in accounts receivable	(345)	-
(Increase) decrease in prepaid expenses	(1,073)	-
Increase (decrease) in compensated absences	2,240	-
Increase (decrease) in accounts payable	(126,621)	-
Increase (decrease) in OPEB liability	-	33,081
Increase (decrease) customer deposits	(475)	-
Total adjustments	<u>\$ (39,916)</u>	<u>\$ 33,081</u>
Net cash provided (used) by operating activities	<u>\$ 78,897</u>	<u>\$ -</u>

The notes to the financial statements are an integral part of this statement.

CITY OF LEXINGTON, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

Note 1-Summary of Significant Accounting Policies:

The financial statements of the City of Lexington, Virginia conform to generally accepted accounting principles (GAAP) applicable to government units promulgated by the Governmental Accounting Standards Board (GASB). The following is a summary of the more significant policies:

A. Reporting Entity

The City of Lexington, Virginia (government) is a municipal corporation governed by an elected seven-member City Council. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the government.

Blended component units - None

Discretely Presented Component Units - The component unit columns in the financial statements include the financial data of the City's discretely presented component units. They are reported in a separate column to emphasize that they are legally separate from the City.

School Board - The Lexington City School Board operates the elementary and secondary public schools in the City. School Board members are appointed by City Council. The School Board is fiscally dependent upon the City because the City approves all debt issuances of the School Board and provides significant funding to operate the public schools since the School Board does not have separate taxing powers. The School Board is presented as a governmental fund type. The School Board does not issue its own financial report; therefore all of the School Board's financial information is presented within this Comprehensive Annual Financial Report.

Central Dispatch - The Central Dispatch provides emergency response dispatch for the City of Lexington, the City of Buena Vista, and the County of Rockbridge Fire and Rescue departments and the Cities of Lexington, Buena Vista, and Virginia Military Institute Police departments. The City has determined this to be a component unit based on the opinion that its exclusion would render the basic financial statements misleading. The City does not exercise direct control over Central Dispatch's board or its annual budget, but does serve as fiscal agent. An annual budget is adopted for the Central Dispatch fund which accounts for the general operations of the emergency response dispatch activities. Financing is provided by funds from the Virginia Wireless Board Grant, as well as appropriations from the City of Lexington, the City of Buena Vista, the County of Rockbridge, and Virginia Military Institute. Central Dispatch consists of a governmental fund type, a special revenue fund, and has been presented as a nonmajor component unit in this financial report. Central Dispatch does not issue separate financial statements. All of Central Dispatch's financial information is presented within this Comprehensive Annual Financial Report.

Note 1-Summary of Significant Accounting Policies: (Continued)

A. Reporting Entity (Continued)

Discretely Presented Component Units (Continued)

Rockbridge Area Recreation Organization - The Rockbridge Area Recreation Organization (RARO) was formed by the City of Lexington and the County of Rockbridge to provide recreational activities for area youth. The Lexington City Council does not appoint any RARO Board Members. The City has significant influence over RARO's budget matters but does not exercise direct control over its board or annual budget. The City also serves as RARO's fiscal agent. The City has determined this to be a component unit because its exclusion would render the basic financial statements misleading. Financing is provided by appropriation from the City's General Fund by City Council. The City then bills the County of Rockbridge for the County's share of RARO's operations; this revenue is shown as a recovered cost in the General Fund of the City. RARO consists of a governmental fund type, special revenue fund, and has been presented as a nonmajor component unit in this financial report. RARO does not issue separate financial statements. All of RARO's financial information is presented within this Comprehensive Annual Financial Report.

Regional Tourism - Regional Tourism serves to promote tourism in the Cities of Lexington and Buena Vista and the County of Rockbridge. The City of Lexington appoints two of the seven members to the governing board of Regional Tourism. The City does not exercise direct control over the Regional Tourism's board or its annual budget, but does serve as fiscal agent. The City has determined this to be a component unit because its exclusion would render the basic financial statements misleading. Regional Tourism is presented as a governmental fund type consisting of one special revenue fund which accounts for the general promotion of tourism. Financing is provided by specific allocations from the state government, as well as appropriations from the Cities of Lexington and Buena Vista and the County of Rockbridge. Regional Tourism has been presented as a nonmajor component unit within this financial report. Regional Tourism does not issue separate financial statements. All of Regional Tourism's financial information is presented within this Comprehensive Annual Financial Report.

Related Organizations - The City's officials are also responsible for appointing the members of the boards of other organizations, but the City's accountability for these organizations does not extend beyond making the appointment.

The City Council appoints the Lexington Industrial Development Authority (IDA) Board which approves applications for IDA loans. However, IDA loans do not represent obligations of the City, are not for the purpose of financing City projects, nor does Council exercise control over daily operations.

Note 1-Summary of Significant Accounting Policies: (Continued)

A. Reporting Entity (Continued)

Jointly Governed Organizations -

The Rockbridge Regional Library, Rockbridge County Regional Jail Commission, Rockbridge Area Community Services Board, Rockbridge Social Services Board, Shenandoah Valley Juvenile Detention Home Commission, Rockbridge Area Regional IDA, and the Maury Service Authority are considered intergovernmental (joint) ventures and therefore their operations are not included in the City's financial report. The Cities of Lexington and Buena Vista and the County of Rockbridge provide financial support and appoint their governing Boards, in which is vested the administration and control over operations.

The Cities of Lexington and Buena Vista and the County of Rockbridge participate in the Solid Waste Authority of Rockbridge County which operates a regional landfill. The Authority is governed by a committee comprised of five members appointed by the participating jurisdictions. City Council appoints one member and has control over the budget and financing of the Authority only to the extent of representation by the committee member appointed; therefore the Authority's operations are not included in this financial report.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements.

Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and the proprietary fund. Major individual governmental funds and major individual enterprise funds, if any, are reported as separate columns in the fund financial statements.

Note 1-Summary of Significant Accounting Policies: (Continued)

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Accordingly, real and personal property taxes are recorded as revenues and receivables when billed, net of allowances for uncollectible amounts. Property taxes not collected within 60 days after year-end are reflected as deferred revenues.

Sales and utility taxes, which are collected by the state or utilities and subsequently remitted to the City, are recognized as revenues and receivables upon collection by the state or utility, which is generally in the month preceding receipt by the City.

Licenses, permits, fines and rents are recorded as revenues when received. Intergovernmental revenues, consisting primarily of federal, state and other grants for the purpose of funding specific expenditures, are recognized when earned or at the time of the specific expenditure. Revenues from general-purpose grants are recognized in the period to which the grant applies. All other revenue items are considered to be measurable and available only when the government receives cash.

The government reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in other funds.

Note 1-Summary of Significant Accounting Policies: (Continued)

C. Measurement focus, basis of accounting, and financial statement presentation: (Continued)

The government reports the following major governmental funds: (Continued)

The *Capital Projects Fund* accounts for financial resources to be used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds.

The *Cemetery Trust Fund* (Permanent Fund) accounts for investments and related earnings which are used to offset the cost of City cemeteries.

The government reports the following major proprietary funds:

The City operates a sewage collection and treatment system and a water treatment plant and distribution system. The activities of the system are accounted for in the Utility Fund.

The *Internal Service Fund* accounts for the financing of goods and services provided by one department or agency to other departments or agencies of the City government. The contributions for other postemployment benefits are accounted for in this fund.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and enterprise fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise fund are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expense, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Note 1-Summary of Significant Accounting Policies: (Continued)

C. Measurement focus, basis of accounting, and financial statement presentation: (Continued)

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

D. Assets, liabilities, and net assets or equity

1. Deposits and investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Investments for the government, as well as for its component units, are reported at fair value. The State Treasurer's Local Government Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

3. Property Taxes

Property is assessed at its value on January 1. Property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on June 5th and December 5th. Personal property taxes are pro-rated. The City bills and collects its own property taxes.

4. Inventory

Inventories are stated at the lower of cost or market using the specific identification method. The only significant governmental fund-type inventory is the inventory of rehabilitated properties in the General Fund. The costs of these properties are recorded as expenditures when purchased. Changes in inventory amounts are offset directly to fund balance.

Note 1-Summary of Significant Accounting Policies: (Continued)**D. Assets, liabilities, and net assets or equity (Continued)****5. Allowance for Uncollectible Accounts**

The City calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance amounted to approximately \$54,093 at June 30, 2009 and is comprised solely of property taxes.

6. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

7. Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental, business-type activities and discretely presented component unit columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Infrastructure, buildings, improvements and construction projects in excess of \$20,000 per project are added to the City's capital assets. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. No interest was capitalized during the current or previous year.

Property, plant, and equipment of the primary government, as well as the component units, is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	20 - 50
Improvements other than buildings	10 - 15
Structures, lines, and accessories	20 - 40
Machinery and equipment	2 - 20
Infrastructure	50

Note 1-Summary of Significant Accounting Policies: (Continued)

D. Assets, liabilities, and net assets or equity (Continued)

8. Compensated Absences

Employees accumulate vacation and sick leave hours for subsequent use. In the governmental funds, compensated absences for vacation leave are reported only if matured (unused, reimbursable leave, still outstanding following an employee's termination, resignation, death, or retirement). In the primary government and the discretely presented nonmajor component units - Central Dispatch, RARO, and Regional Tourism, an employee can accumulate from 24 to 42 days of vacation, based on years of service, and unlimited sick leave. Compensated absences are accrued when incurred in governmental and proprietary funds and reported as a fund liability. In the discretely presented component unit - school board, an employee can accumulate up to 28 days of vacation and 200 days of sick leave. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignation or retirement. Compensated absences that are expected to be liquidated with expendable available resources are reported as expenditures and fund liabilities of the governmental fund that will pay it.

9. Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

10. Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Note 1-Summary of Significant Accounting Policies: (Continued)

D. Assets, liabilities, and net assets or equity (Continued)

11. Net Assets

Net assets are the difference between assets and liabilities. Net assets invested in capital assets represent capital assets, less accumulated depreciation less any outstanding debt related to the acquisition, construction or improvement of those assets.

12. Component Unit - School Board Capital Asset and Debt Presentation

By law, the School Board does not have taxing authority and, therefore, it cannot incur debt through general obligation bonds to fund the acquisition, construction or improvement to its capital assets. That responsibility lies with the local governing body who issues the debt on behalf of the School Board. However, the *Code of Virginia* requires the School Board to hold title to the capital assets (buildings and equipment) due to their responsibility for maintaining the asset.

In the Statement of Net Assets, this scenario presents a dilemma for the primary government. Debt issued on behalf of the School Board is reported as a liability of the primary government, thereby reducing the net assets of the primary government. The corresponding capital assets are reported as assets of the Component Unit - School Board (title holder), thereby increasing its net assets.

During the 2002 Virginia General Assembly session, the legislature amended the *Code of Virginia* to allow a tenancy in common with the School Board whenever the locality incurs a financial obligation which is payable over more than one fiscal year for any school property. The tenancy in common terminates when the associated debt has been paid in full. For financial reporting purposes, the legislation permits the locality to report the portion of the school property related to any outstanding financial obligation, thus eliminating a potential deficit from financing capital assets with debt. The legislation also allows local governments to elect not to acquire a tenancy in common by adopting a resolution to that effect.

The City concluded that, while joint tenancy would resolve a deficit in the primary government's net assets, the continual computation process that would be required to allocate principal, interest, asset amount, and depreciation between the City and the School Board would be cumbersome and not provide any added benefit to the financial statements. Therefore, City Council adopted a resolution declining tenancy in common for current and future obligations.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

Note 2-Reconciliation of Government-Wide and Fund Financial Statements:

- A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets.

The governmental fund balance sheet includes a reconciliation between *fund balance-total governmental funds* and *net assets-governmental activities* as reported in the government-wide statements of net assets. One element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of these (\$12,696,305), (\$118,545), and (\$68,200) differences for the primary government, discretely presented component unit - school board, and nonmajor component units, respectively, are as follows:

	Primary Government	Component Unit School Board	Nonmajor Component Units
Bonds payable	\$ (12,632,934)	\$ -	\$ -
Less: Bond issuance costs	225,853	-	-
Accrued interest payable	(46,388)	-	-
Compensated absences	(232,700)	(95,600)	(68,200)
OPEB obligation	(10,136)	(22,945)	-
Net adjustment to reduce <i>fund balance-total governmental funds</i> to arrive at <i>net assets-governmental activities</i>	<u>\$ (12,696,305)</u>	<u>\$ (118,545)</u>	<u>\$ (68,200)</u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

Note 2-Reconciliation of Government-Wide and Fund Financial Statements: (Continued)

- B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances-total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains, "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of these \$2,041,599, \$3,006, and (\$26,721) differences for the primary government, discretely presented component unit - school board, and discretely presented nonmajor component units, respectively, are as follows:

	Primary Government	Component Unit School Board	Nonmajor Component Units
Capital outlays	\$ 2,703,551	\$ 188,276	\$ 14,305
Depreciation expenses	(661,952)	(185,270)	(41,026)
Net adjustment to increase (decrease) <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets</i> of governmental activities	\$ 2,041,599	\$ 3,006	\$ (26,721)

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**Note 2-Reconciliation of Government-Wide and Fund Financial Statements: (Continued)**

- B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities (Continued)

Another element of that reconciliation states "the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities." The detail of this \$689,358 difference in the primary government is as follows:

Principal repayments:	
General obligation debt	\$ 689,358
Net adjustment to increase <i>net changes in fund balances-total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	\$ 689,358

Another element of that reconciliation states, "Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds." The details of these (\$34,695), (\$21,479), and (\$7,364) differences for the primary government, discretely presented component unit - school board, and discretely presented nonmajor component units, respectively, are as follows:

	Primary Government	Component Unit School Board	Nonmajor Component Units
(Increase) decrease in compensated absences	\$ (25,555)	\$ (21,479)	\$ (7,364)
(Increase) decrease in accrued interest	(775)	-	-
Amortization of issuance costs	(8,365)	-	-
Net adjustment to increase (decrease) <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	\$ (34,695)	\$ (21,479)	\$ (7,364)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

Note 3-Stewardship, Compliance, and Accountability:

A. Excess of expenditures over appropriations

For the year ended June 30, 2009, the City did not have any expenditures in excess of appropriations.

B. Deficit fund equity

At June 30, 2009, there were no funds with deficit fund equity.

Note 4-Deposits and Investments:

Deposits:

All cash of the City of Lexington, Virginia and its discretely presented component units is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. seq. of the Code of Virginia or covered by federal depository insurance.

Investments:

Statutes authorize local governments and other public bodies to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, banker's acceptances, repurchase agreements, and the State Treasurer's Local Government Investment Pool (LGIP).

Custodial Credit Risk (Investments)

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City has an investment policy which limits the City's exposure to credit risk of investments. The City did not purchase any investments in 2009 that are outside the cemetery trust fund established to invest perpetual care funds for two cemeteries owned by the City. The City's investments at June 30, 2009 were held in the City's name by the City's custodial bank; except \$55,834 of U.S. Treasuries, \$156,404 of Corporate Bonds, \$25,938 of U.S. Agencies Bonds, \$251,497 of Mutual Fund Bonds, and \$504,007 of Common Stocks where the underlying securities were uninsured and held by the investment's counterparty's trust department or agent but not in the name of the City. The Local Government Investment Pool (LGIP) is not exposed to custodial credit risk because its existence is not evidenced by securities that exist in physical or book entry form.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

Note 4-Deposits and Investments: (Continued)Credit Risk of Debt Securities

The City's rated debt investments as of June 30, 2009 were rated by Moody's and/or an equivalent national rating organization and the ratings are presented below using the Standard and Poor's rating scale.

City's Rated Debt Investments' Values

Rated Debt Investments	Fair Quality Ratings			
	Aaa	Aa2	A2	Unrated
LGIP	\$ 8,041,416	\$ -	\$ -	\$ -
U.S. Agencies	25,938	-	-	-
Bond Mutual Fund	-	-	-	251,497
Corporate Bonds:				
BellSouth Corp.	-	-	51,925	-
Emerson Electric Co.	-	-	52,972	-
General Electric Corp.	-	51,508	-	-

Concentration of Credit Risk

At June 30, 2009, the City did not have any investments meeting the GASB 40 definition requiring concentration of credit risk disclosures that exceeded 5% of total investments.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**Note 4-Deposits and Investments: (Continued)**Interest Rate Risk

Investment Type	Fair Value	Maturity Date	Call Options
Corporate Bonds:			
BellSouth Corp	\$ 51,925	2/15/2010	Continuously
Emerson Electric Co.	52,972	8/15/2010	None
General Electric Corp	51,508	1/19/2010	None
Government Bonds:			
FNMA	25,938	1/15/2010	None
Mutual Fund Bonds:			
Ridgeworth Fd-Short Term BD	40,078	Upon demand	None
Ridgeworth Fd-US Govt Secs	25,308	Upon demand	None
Ridgeworth Fd-Seix Fltg Rt High Inc	16,904	Upon demand	None
Ridgeworth Fd-Intermediate BD	138,958	Upon demand	None
PIMCO Fds Foreign BD	16,508	Upon demand	None
PIMCO Fds PAC Invt Mgmt Ser Invt	13,740	Upon demand	None
LGIP	8,041,416	Upon demand	None

The fair value of the positions in the external investment pool (Local Government Investment Pool) is the same as the value of the pool shares. As this pool is not SEC registered, regulatory oversight of the pool rests with the Virginia State Treasury.

The City's investment policy encourages City officials to invest in funds that limit the City's credit risk, custodial credit risk, and interest rate risk.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

Note 5-Due from Other Governmental Units:

The following amounts represent receivables from other governments at year-end:

	Primary Government	Component Unit- School Board	Nonmajor Component Units
<u>Rockbridge County:</u>			
General Fund	\$ 180,800	\$ -	\$ 7,100
<u>Commonwealth of Virginia:</u>			
Local sales tax	140,039	-	-
Communications sales and use tax	48,650	-	-
State sales tax	-	67,885	-
Categorical aid-shared expenses	12,972	-	-
Other categorical aid	21,892	-	14,823
Non-categorical aid	227,016	-	-
Virginia public assistance funds	24,807	-	-
Other school funds	-	102,000	-
<u>Federal Government:</u>			
Categorical aid	12,770	-	-
School grants	-	31,898	-
Totals	<u>\$ 668,946</u>	<u>\$ 201,783</u>	<u>\$ 21,923</u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

Note 6-Interfund Transfers:

Interfund transfers for the fiscal year ended June 30, 2009 consisted of the following:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Primary Government:		
General Fund	\$ -	\$ 1,650,283
Capital Projects Fund	1,619,497	-
Cemetery Fund	20,650	-
Internal Service Fund	33,081	-
Component Unit:		
School Board	-	22,945
Total	<u>\$ 1,673,228</u>	<u>\$ 1,673,228</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them or (2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgeting authorization.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**Note 7-Long-Term Debt:**Primary Government - Governmental Activity Indebtedness:

Annual requirements to amortize long-term debt and related interest are as follows:

Year Ending June 30,	General Obligation Bonds	
	Principal	Interest
2010	\$ 693,960	\$ 548,306
2011	722,361	521,024
2012	416,613	496,375
2013	265,000	484,951
2014	275,000	474,151
2015-2019	1,565,000	2,190,355
2020-2024	1,925,000	1,822,384
2025-2029	2,380,000	1,346,951
2030-2034	2,985,000	732,775
2035-2036	1,405,000	71,125
Totals	<u>\$ 12,632,934</u>	<u>\$ 8,688,397</u>

The following is a summary of long-term debt transactions of the City for the year ended June 30, 2009.

	Balance July 1, 2008	Issuances	Retirements	Balance June 30, 2009
General Obligation Bonds	\$ 13,322,292	\$ -	\$ (689,358)	\$ 12,632,934
OPEB Obligation	-	10,136	-	10,136
Compensated Absences	207,145	195,350	(169,795)	232,700
Total	<u>\$ 13,529,437</u>	<u>\$ 205,486</u>	<u>\$ (859,153)</u>	<u>\$ 12,875,770</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**Note 7-Long-Term Debt: (Continued)**Primary Government - Governmental Activity Indebtedness: (Continued)

Details of long-term indebtedness:

	Interest Rates	Issue Date	Final Maturity Date	Amount of Original Issue	Balance Governmental Activities	Amount Due Within One Year
General Obligation Bonds:						
GO Bond	3.98%	10/1/2001	2011	\$ 4,029,000	\$ 1,087,934	\$ 453,960
GO Bond	3.5%-5%	1/5/2006	2035	12,000,000	11,545,000	240,000
Total GO Bonds					\$ 12,632,934	\$ 693,960
Other Obligations:						
Compensated Absences	n/a	n/a	n/a	n/a	\$ 232,700	\$ 23,270
OPEB Obligation	n/a	n/a	n/a	n/a	10,136	-
Total Other Obligations					\$ 242,836	\$ 23,270
Total Long-term debt					\$ 12,875,770	\$ 717,230

Compensated absences are liquidated by the City's general fund.

Primary Government-Enterprise Activity Indebtedness:

The following is a summary of long-term debt transactions of the Enterprise Fund for the year ended June 30, 2009.

	Balance July 1, 2008	Issuances	Retirements	Balance June 30, 2009
General Obligation Bonds	\$ 42,806	\$ -	\$ (42,806)	\$ -
Compensated Absences	56,656	42,985	(40,745)	58,896
Total	\$ 99,462	\$ 42,985	\$ (83,551)	\$ 58,896

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

Note 7-Long-Term Debt: (Continued)Primary Government-Enterprise Activity Indebtedness: (Continued)Details of long-term indebtedness:

	Interest Rates	Issue Date	Final Maturity Date	Amount of Original Issue	Balance Business-type Activities	Amount Due Within One Year
Other Obligations:						
Compensated Absences	n/a	n/a	n/a	n/a	\$ 58,896	\$ 5,890

Compensated absences are liquidated by the Utilities Fund.

Note 8-Long-Term Debt-Component Units:Discretely Presented Component Unit-School Board-Indebtedness:

The following is a summary of long-term debt transactions of the Component-Unit School Board for the year ended June 30, 2009.

	Balance July 1, 2008	Issuances	Retirements	Balance June 30, 2009
Compensated Absences	\$ 74,121	\$ 21,479	\$ -	\$ 95,600
OPEB Obligation	-	22,945	-	22,945
Total	\$ 74,121	\$ 44,424	\$ -	\$ 118,545

Details of long-term indebtedness:

	Interest Rates	Issue Date	Final Maturity Date	Amount of Original Issue	Balance Governmental Activities	Amount Due Within One Year
Other Obligations:						
Compensated Absences	n/a	n/a	n/a	n/a	\$ 95,600	\$ 9,560
OPEB Obligation	n/a	n/a	n/a	n/a	22,945	-
Total Other Obligations					\$ 118,545	\$ 9,560

Compensated absences are liquidated by the School Fund.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

Note 8-Long-Term Debt-Component Units: (Continued)Discretely Presented Nonmajor Component Units:

The following is a summary of long-term debt transactions of the Nonmajor Component Units for the year ended June 30, 2009.

	Balance July 1, 2008	Issuances	Retirements	Balance June 30, 2009
Compensated Absences	\$ 60,836	\$ 51,493	\$ (44,129)	\$ 68,200

Details of long-term indebtedness:

	Interest Rates	Issue Date	Final Maturity Date	Amount of Original Issue	Balance Governmental Activities	Amount Due Within One Year
Other Obligations:						
Compensated Absences	n/a	n/a	n/a	n/a	\$ 68,200	\$ 6,820

Compensated absences are liquidated by the nonmajor component unit which reports the liability.

Note 9-Employee Retirement System and Pension Plans:**A. Plan Description**

Name of Plan: Virginia Retirement System (VRS)
 Identification of Plan: Agent and Cost-Sharing Multiple-Employer Defined Benefit Pension Plan
 Administering Entity: Virginia Retirement System (System)

The City contributes to the Virginia Retirement System (VRS). All full-time, salaried permanent employees of participating employers must participate in the VRS. Benefits vest after five years of service. Employees are eligible for an unreduced retirement benefit at age 65 with 5 years of service (age 60 for participating local law enforcement officers, firefighters, and sheriffs) or at age 50 with at least 30 years of service if elected by the employer (age 50 with at least 25 years of service for participating local law enforcement officers, firefighters, and sheriffs) payable monthly for life in an amount equal to 1.7 percent of their average final compensation (AFC) for each year of credited service (1.85% for sheriffs and if the employer elects, for other employees in hazardous duty positions receiving enhanced benefits). Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. In addition, retirees qualify for annual cost-of-living adjustment (COLA) beginning in their second year of retirement. The COLA is limited to 5.00% per year. AFC is defined as the highest consecutive 36 months of reported compensation. Participating local law enforcement officers, firefighters, and sheriffs may receive a monthly benefit supplement if they retire prior to age 65. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

Note 9-Employee Retirement System and Pension Plans: (Continued)

A. Plan Description (Continued)

The system issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be downloaded at <http://www.varetire.org/Pdf/Publications/2008AnnuRept.pdf> or obtained by writing to the System at Chief Financial Officer, P.O. Box 2500, Richmond, VA, 23218-2500.

B. Funding Policy

Primary Government:

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5% of their annual salary to the VRS. The employer assumes this 5% member contribution. In addition, the City is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The City's contribution rate for the fiscal year ended 2009 was 10.34% (not including the 5% member contribution) of annual covered payroll.

Discretely Presented Component Unit - School Board (Non-Professional Employees):

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5% of their annual salary to the VRS. The employer assumes this 5% member contribution. In addition, the School Board is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The School Board's contribution rate for the fiscal year ended 2009 was 0.23% (not including the 5% member contribution) of the annual covered payroll.

C. Annual Pension Cost

For fiscal year 2008, the City of Lexington, Virginia's annual pension cost of \$363,213 and \$175 was equal to the City of Lexington, Virginia's required and actual contributions for the City and the School Board Non-Professionals, respectively.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

Note 9-Employee Retirement System and Pension Plans: (Continued)

C. Annual Pension Cost (Continued)

Three-Year Trend Information

	Fiscal Year Ending	Annual Pension Cost (APC) ¹	Percentage of APC Contributed	Net Pension Obligation
Primary Government:				
City	6/30/2009	\$ 363,213	100.00%	\$ -
	6/30/2008	416,046	100.00%	-
	6/30/2007	392,585	100.00%	-
Discretely Presented-Component Unit:				
School Board Non-Professional	6/30/2009	\$ 175	100.00%	\$ -
	6/30/2008	171	100.00%	-
	6/30/2007	175	100.00%	-

¹ Employer portion only

The required contribution was determined as part of the June 30, 2008 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2008 included (a) 7.50% investment rate of return (net of administrative expenses), (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees and 3.5 % to 4.75% for LEOS employees, and (c) 2.50% per year cost-of-living adjustments. Both the investment rate of return and the projected salary increase include an inflation component of 2.50%. The actuarial value of the City of Lexington, Virginia's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The City of Lexington, Virginia's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2008 was 20 years.

D. Funded Status and Funding Progress

Primary Government:

As of June 30, 2008, the most recent actuarial valuation date, the plan was 87.76% funded. The actuarial accrued liability for benefits was \$17,313,196, and the actuarial value of assets was \$15,194,816, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,118,380. The covered payroll (annual payroll of active employees covered by the plan) was \$4,049,209, and ratio of the UAAL to the covered payroll was 52.32%.

Note 9-Employee Retirement System and Pension Plans: (Continued)

D. Funded Status and Funding Progress (Continued)

Discretely Presented Component Unit - School Board (Non-Professional Employees):

As of June 30, 2008, the most recent actuarial valuation date, the plan was 139.74% funded. The actuarial accrued liability for benefits was \$371,936, and the actuarial value of assets was \$519,738, resulting in a negative unfunded actuarial accrued liability (UAAL) of (\$147,802). The covered payroll (annual payroll of active employees covered by the plan) was \$74,409, and ratio of the UAAL to the covered payroll was -198.63%.

The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

E. Discretely Presented Component Unit School Board - Professional Employees:

Plan Description

The Lexington City School Board contributes to the Virginia Retirement System (VRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Virginia Retirement System. VRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the State legislature. The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be downloaded from their website at <http://www.varetire.org/Pdf/2008AnnuRept.pdf> or obtained by writing to the System at P.O. Box 2500, Richmond, VA, 23218-2500.

Funding Policy

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5% of their annual salary to the VRS. The employer may assume this 5% member contribution. In addition, the School Board is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The School Board's contribution to the statewide cost sharing pool for professional employees was \$216,971, \$233,205, and \$202,274 for the fiscal years ended 2009, 2008, and 2007, respectively. Employer contributions represented 8.81%, 10.30%, and 9.20%, of covered payroll for the fiscal years ended 2009, 2008, and 2007, respectively.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

Note 10-Unearned Revenue:

Deferred revenue represents amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting, such amounts are measurable, but not available. Deferred revenue totaling \$97,793 is comprised of the following:

Property Taxes - Property taxes totaling \$45,295 not due until December 5, 2009, but paid prior to June 30, 2009.

Grants - Grant revenue collected by the City for various purposes that hasn't met the revenue criteria totaled \$52,498.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**Note 11-Capital Assets:**

Capital asset activity for the year ended June 30, 2009 was as follows:

Primary Government:

	Beginning Balance	Increases	Decreases	Ending Balance
<i>Governmental Activities:</i>				
Capital assets, not being depreciated:				
Land	\$ 1,992,532	\$ 699,565	\$ -	\$ 2,692,097
Construction in progress	4,936,077	38,281	(4,647,914)	326,444
Total capital assets not being depreciated	<u>\$ 6,928,609</u>	<u>\$ 737,846</u>	<u>\$ (4,647,914)</u>	<u>\$ 3,018,541</u>
Capital assets, being depreciated:				
Buildings	\$ 4,679,689	\$ 6,223,617	\$ -	\$ 10,903,306
Improvements other than buildings	1,130,534	-	-	1,130,534
Infrastructure	4,907,523	145,910	-	5,053,433
Machinery and equipment	5,500,330	244,092	(61,276)	5,683,146
Total capital assets being depreciated	<u>\$ 16,218,076</u>	<u>\$ 6,613,619</u>	<u>\$ (61,276)</u>	<u>\$ 22,770,419</u>
Less: accumulated depreciation for:				
Buildings	\$ (1,269,106)	\$ (154,761)	\$ -	\$ (1,423,867)
Improvements other than buildings	(286,608)	(53,359)	-	(339,967)
Infrastructure	(1,849,184)	(101,184)	-	(1,950,368)
Machinery and equipment	(3,064,689)	(352,648)	61,276	(3,356,061)
Total accumulated depreciation	<u>\$ (6,469,587)</u>	<u>\$ (661,952)</u>	<u>\$ 61,276</u>	<u>\$ (7,070,263)</u>
Total capital assets being depreciated, net	<u>\$ 9,748,489</u>	<u>\$ 5,951,667</u>	<u>\$ -</u>	<u>\$ 15,700,156</u>
Governmental activities capital assets, net	<u>\$ 16,677,098</u>	<u>\$ 6,689,513</u>	<u>\$ (4,647,914)</u>	<u>\$ 18,718,697</u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**Note 11-Capital Assets: (Continued)****Primary Government: (Continued)**

	Beginning Balance	Increases	Decreases	Ending Balance
<i>Business-Type Activities:</i>				
Capital assets, not being depreciated				
Construction in progress	\$ -	\$ 56,763	\$ -	\$ 56,763
Capital assets, being depreciated:				
Buildings	\$ 113,405	\$ -	\$ -	\$ 113,405
Improvements other than buildings	442,708	-	-	442,708
Infrastructure	3,299,903	-	-	3,299,903
Machinery and equipment	328,958	38,843	(787)	367,014
Total capital assets being depreciated	\$ 4,184,974	\$ 38,843	\$ (787)	\$ 4,223,030
Less: accumulated depreciation for:				
Buildings	\$ (113,405)	\$ -	\$ -	\$ (113,405)
Improvements other than buildings	(291,253)	(7,560)	-	(298,813)
Infrastructure	(1,818,141)	(56,097)	-	(1,874,238)
Machinery and equipment	(107,205)	(22,701)	787	(129,119)
Total accumulated depreciation	\$ (2,330,004)	\$ (86,358)	\$ 787	\$ (2,415,575)
Total capital assets being depreciated, net	\$ 1,854,970	\$ (47,515)	\$ -	\$ 1,807,455
Business-type activities capital assets, net	\$ 1,854,970	\$ 9,248	\$ -	\$ 1,864,218

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**Note 11-Capital Assets: (Continued)****Primary Government: (Continued)**

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government administration	\$ 75,526
Public safety	230,828
Public works	286,758
Parks, recreation, and culture	63,711
Community development	5,129
Total depreciation expense-governmental activities	<u>\$ 661,952</u>
Business-type activities:	
Water and Sewer Fund	<u>\$ 86,358</u>

Capital asset activity for the School Board for the year ended June 30, 2009 was as follows:

Discretely Presented Component Unit - School Board:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 4,550	\$ -	\$ -	\$ 4,550
Construction in progress	275,060	188,276	-	463,336
Total capital assets not being depreciated	<u>\$ 279,610</u>	<u>\$ 188,276</u>	<u>\$ -</u>	<u>\$ 467,886</u>
Capital assets, being depreciated:				
Buildings	\$ 4,776,367	\$ -	\$ -	\$ 4,776,367
Machinery and equipment	491,489	-	(8,049)	483,440
Total capital assets being depreciated	<u>\$ 5,267,856</u>	<u>\$ -</u>	<u>\$ (8,049)</u>	<u>\$ 5,259,807</u>
Less: accumulated depreciation for:				
Buildings	\$ (2,419,568)	\$ (140,215)	\$ -	\$ (2,559,783)
Machinery and equipment	(335,503)	(45,055)	8,049	(372,509)
Total accumulated depreciation	<u>\$ (2,755,071)</u>	<u>\$ (185,270)</u>	<u>\$ 8,049</u>	<u>\$ (2,932,292)</u>
Total capital assets being depreciated, net	<u>\$ 2,512,785</u>	<u>\$ (185,270)</u>	<u>\$ -</u>	<u>\$ 2,327,515</u>
School board capital assets, net	<u>\$ 2,792,395</u>	<u>\$ 3,006</u>	<u>\$ -</u>	<u>\$ 2,795,401</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

Note 11-Capital Assets: (Continued)Primary Government: (Continued)Discretely Presented Component Unit - School Board: (Continued)

Depreciation expense was charged to functions of the Discretely Presented Component Unit - School Board as follows:

Education	<u>\$185,270</u>
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Discretely Presented Component Units - Nonmajor:

Capital asset activity for the Nonmajor Component Units for the year ended June 30, 2009 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, being depreciated:				
Machinery and equipment - Central Dispatch	\$ 423,406	\$ 5,175	\$ (74,368)	\$ 354,213
Machinery and equipment - RARO	-	9,130	-	9,130
Machinery and equipment - Regional Tourism	11,664	-	-	11,664
Total capital assets being depreciated	<u>\$ 435,070</u>	<u>\$ 14,305</u>	<u>\$ (74,368)</u>	<u>\$ 375,007</u>
Less: accumulated depreciation for:				
Machinery and equipment - Central Dispatch	\$ (254,080)	\$ (39,932)	\$ 74,368	\$ (219,644)
Machinery and equipment - RARO	-	(228)	-	(228)
Machinery and equipment - Regional Tourism	(9,067)	(866)	-	(9,933)
Total accumulated depreciation	<u>\$ (263,147)</u>	<u>\$ (41,026)</u>	<u>\$ 74,368</u>	<u>\$ (229,805)</u>
Total capital assets being depreciated, net	<u>\$ 171,923</u>	<u>\$ (26,721)</u>	<u>\$ -</u>	<u>\$ 145,202</u>
Nonmajor component unit capital assets, net	<u>\$ 171,923</u>	<u>\$ (26,721)</u>	<u>\$ -</u>	<u>\$ 145,202</u>

Depreciation expense was charged to functions of the Nonmajor Component Units as follows:

Public safety	\$ 39,932
Parks, recreation, and cultural	228
Community development	<u>866</u>
Total depreciation expense-nonmajor component units	<u>\$ 41,026</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

Note 12-Risk Management:

The City and its component unit - School Board are exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The City and its component unit - School Board participate with other localities in a public entity risk pool for their coverage of general liability and auto insurance with the Virginia Municipal Liability Pool. Each member of this risk pool jointly and severally agrees to assume, pay and discharge any liability. The City and its component unit - School Board pay the Virginia Municipal Group contributions and assessments based upon classification and rates into a designated cash reserve fund out of which expenses of the pool, claims and awards are to be paid. In the event of a loss deficit and depletion of all available excess insurance, the pool may assess all members in the proportion in which the premium of each bears to the total premiums of all members in the year in which such deficit occurs. The City and its component unit - School Board continue to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 13-Contingent Liabilities:

Construction of New Courthouse: The County of Rockbridge and the City of Lexington have been placed under a court order by the Commonwealth of Virginia to expand the space used for courts and to improve the safety and security of the courts.

A new \$23.7 million courthouse was completed in February 2009 by the County of Rockbridge and will be reported as an asset of the County. However, the City of Lexington will report the 144 space parking garage adjacent to the court facility as an asset costing \$6.2 million. The parking garage operation and maintenance costs will be allocated with 9.9% to Rockbridge County and 90.1% as the City of Lexington's portion of costs. The construction of these projects began in 2006, and the City issued bonds for \$12 million to fund the majority of its share of the costs.

Contingent Liability: The City has guaranteed debt issued by the Maury Service Authority (MSA) for the construction of its current water treatment plant. The MSA's debt totaled \$8,864,694 as of June 30, 2009, and is scheduled to be completely retired by June of 2018. The City annually is assessed \$565,619 per year by the MSA for half of the debt service; the County of Rockbridge pays an equal assessment.

Note 14-Surety Bonds:

Primary Government:

Fidelity & Deposit Company of Maryland-Surety:

Steven Crowder, Chief of Police	\$	30,000
Pat DeLaney, Treasurer		500,000
Karen T. Roundy, Commissioner of Revenue		3,000

Virginia Municipal Liability Pool - Surety:

Pat DeLaney, Treasurer	\$	100,000
Wanda Floyd, Deputy Treasurer		3,000

Note 15-Service Contracts:

Maury Service Authority: The Maury Service Authority (MSA) provides water filtration and potable water to the City and to Rockbridge County, which in turn sell these same services to their respective residents. The City manages and operates the two plants under separate contractual agreements with the MSA, and charges the MSA for administrative costs plus an agreed upon fee for services. The City bills the MSA quarterly for actual operating costs plus 5.0% for water treatment plant administrative costs and 5.0% for wastewater treatment plant administrative costs.

In fiscal year 2009, the City paid the MSA \$1,442,982 for bulk purchases of water and sewer services, as well as a \$565,619 assessment for debt service. The City also received \$1,648,610 from the MSA under the operating agreements described above.

Solid Waste Authority of Rockbridge County: The City of Lexington, along with other localities, participates in the Solid Waste Authority of Rockbridge County, which operates a regional landfill. Each participating jurisdiction is responsible through tipping fees for its proportionate share of operating costs. Each jurisdiction, after consultation with the committee, will determine tipping fees to be charged to waste generators within their jurisdiction. The tipping fee charged in 2009 was \$29/ton for refuse disposal at the landfill.

Rockbridge County High School: Rockbridge County owns and operates the Rockbridge County High School. Students residing in both the City and County attend the consolidated school. The City paid the County a portion of construction costs of the school and pays an annual per student tuition cost equal to the percentage of City students attending the school multiplied by operating costs. The City paid the County of Rockbridge \$1,094,251 for high school student tuition in 2009.

Note 16-Annexation/Revenue Sharing:

In 1983, the City filed a petition with the Virginia Commission on Local Government to annex 6.8 square miles of land in the County of Rockbridge adjoining the City. The proposed annexation would have increased the City's size by approximately 842 residents and would have increased its tax base. Negotiations between the City and the County, in an effort to resolve the annexation issues, resulted in a revenue sharing agreement between the two jurisdictions. The voters of the County of Rockbridge in a special referendum approved the agreement on March 6, 1986, and both governing bodies have passed an ordinance adopting the agreement. During fiscal year 2009, the City received \$1,731,551 from the County representing the revenue sharing payment under this agreement.

Note 17-Litigation:

The City is party to several ongoing lawsuits. The most significant suit outstanding involves the claimant Charles Volpe which states a claim of \$9,000,000 with an additional demand of punitive damages for \$350,000. The jury trial held in July 2009 ended with a hung jury and the judge ruled in favor of the City. The case is being appealed by the claimant to be heard at the Federal court level. Another suit involves the claimant James Mayo which states a claim of \$250,000. It is not clear whether or not the claimants will be successful in their cases and no liability has been recorded in the financial statements.

Note 18-Other Postemployment Benefits:

A. Plan Description

The Lexington Post-Retirement Medical Plan (LPRMP) is a single-employer defined benefit healthcare plan administered by the City. LPRMP provides health insurance benefits to eligible retirees and their spouses. To be eligible, employees must meet the age and service criteria for immediate retirement benefits under VRS, which requires that the employee be age 50 with 10 years of service or permanently, totally disabled and injured in the line of duty. Additionally, the employee must be of full-time status in VRS and must be covered by the active plan at the time of retirement or disability. The benefit provisions, including employer and employee contributions, are governed by City Council and can be amended through City Council action. The LPRMP does not issue a publicly available financial report.

B. Funding Policy

The Lexington City Government establishes employer medical contribution rates for all medical plan participants as part of the budgetary process each year. The City also determines how the plan will be funded each year, whether it will be partially funded or fully funded in the upcoming fiscal year. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually by the City. For fiscal year 2009, the City contributed \$58,619 in total for current premiums and prefunding amounts.

For retirees of the City, 100 percent of premiums for both the employee and spouse are the responsibility of the retiree. Coverage under the plan ceases when the employee reaches age 65. For retirees of the School Board, the retiree pays the VRS Healthcare Credit plus the additional difference between the current Employee Premium and the Employer Subsidy at retirement, if any, for the retiree and 100 percent of premiums for a spouse. Coverage ceases at age 65 of the participant.

C. Annual OPEB Cost and Net OPEB Obligation

The City's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation:

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

Note 18-Other Postemployment Benefits: (Continued)**C. Annual OPEB Cost and Net OPEB Obligation (Continued)**

	City	School Board	Total
Annual required contribution	\$ 28,100	\$ 63,600	\$ 91,700
Interest on net OPEB obligation	-	-	-
Adjustment to annual required contribution	-	-	-
Annual OPEB cost (expense)	28,100	63,600	91,700
Actual contributions	(17,964)	(40,655)	(58,619)
Increase in net OPEB obligation	10,136	22,945	33,081
Net OPEB obligation - beginning of year	-	-	-
Net OPEB obligation - end of year	\$ 10,136	\$ 22,945	\$ 33,081

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2009	\$ 91,700	64%	\$ 33,081

D. Funded Status and Funding Progress

As of July 1, 2008, the most recent actuarial valuation date, the actuarial accrued liabilities (AAL) were \$976,200, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$4,123,618, and ratio of the UAAL to the covered payroll was 23.67%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Note 18-Other Postemployment Benefits: (Continued)

E. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2008, actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 4.5 percent investment rate of return per annum. An annual healthcare cost trend rate of 10 percent initially, reduced by decrements of 0.5 percent until an ultimate rate of 5 percent is reached. The UAAL is being amortized as a level percentage over the remaining amortization period, which at June 30, 2009, was 30 years.

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REQUIRED SUPPLEMENTARY INFORMATION

City of Lexington, Virginia
General Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2009

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final	Amounts	
REVENUES				
General property taxes	\$ 4,293,200	\$ 4,293,200	\$ 4,438,289	\$ 145,089
Other local taxes	3,072,900	3,072,900	3,060,864	(12,036)
Permits, privilege fees, and regulatory licenses	32,853	32,853	79,233	46,380
Fines and forfeitures	98,700	98,700	124,101	25,401
Revenue from the use of money and property	248,700	272,825	212,817	(60,008)
Charges for services	916,400	916,400	847,968	(68,432)
Miscellaneous	2,077,100	2,265,217	2,381,840	116,623
Recovered costs	191,600	191,600	179,705	(11,895)
Intergovernmental revenues:				
Commonwealth	1,869,751	1,884,017	1,713,063	(170,954)
Federal	52,100	70,438	47,725	(22,713)
Total revenues	<u>\$ 12,853,304</u>	<u>\$ 13,098,150</u>	<u>\$ 13,085,605</u>	<u>\$ (12,545)</u>
EXPENDITURES				
Current:				
General government administration	\$ 1,226,142	\$ 1,233,888	\$ 1,174,738	\$ 59,150
Judicial administration	270,026	270,026	203,424	66,602
Public safety	2,625,525	2,817,590	2,688,801	128,789
Public works	3,142,423	3,219,227	2,755,075	464,152
Health and welfare	721,535	722,364	565,015	157,349
Education	2,530,501	2,553,320	2,553,320	-
Parks, recreation, and cultural	455,323	1,299,888	1,287,543	12,345
Community development	687,264	795,842	696,579	99,263
Nondepartmental	147,960	116,941	94,762	22,179
Debt service:				
Principal retirement	689,358	689,358	689,358	-
Interest and other fiscal charges	574,447	574,447	574,412	35
Total expenditures	<u>\$ 13,070,504</u>	<u>\$ 14,292,891</u>	<u>\$ 13,283,027</u>	<u>\$ 1,009,864</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (217,200)</u>	<u>\$ (1,194,741)</u>	<u>\$ (197,422)</u>	<u>\$ 997,319</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	\$ (966,000)	\$ (1,641,497)	\$ (1,650,283)	\$ (8,786)
Total other financing sources and uses	<u>\$ (966,000)</u>	<u>\$ (1,641,497)</u>	<u>\$ (1,650,283)</u>	<u>\$ (8,786)</u>
Net change in fund balances	<u>\$ (1,183,200)</u>	<u>\$ (2,836,238)</u>	<u>\$ (1,847,705)</u>	<u>\$ 988,533</u>
Fund balances - beginning	-	-	8,690,276	8,690,276
Fund balances - ending	<u>\$ (1,183,200)</u>	<u>\$ (2,836,238)</u>	<u>\$ 6,842,571</u>	<u>\$ 9,678,809</u>

REQUIRED SUPPLEMENTARY INFORMATION
NOTES TO THE BUDGETARY COMPARISON SCHEDULES
JUNE 30, 2009

Note 1-Stewardship, Compliance, and Accountability:

A. Budgetary information

The following procedures are used by the City in establishing the budgetary data reflected in the financial statements:

1. Prior to March 30, the City Manager submits to the City Council a proposed operating and capital budget for the fiscal year commencing the following July 1. The operating and capital budget includes proposed expenditures and the means of financing them. The following funds have legally adopted budgets: the General Fund, the Capital Projects Fund, the Water and Sewer Utility Fund, and the School Operating Fund.
2. Public hearings are conducted to obtain citizen comments.
3. Prior to June 30, the budget is legally enacted through passage of an Appropriations Resolution.
4. The Appropriations Resolution places legal restrictions on expenditures at the function level. Only the City Council can revise the appropriation for each function level or division of expenditures. The City Manager is authorized to transfer budgeted amounts between departments of a function level of expenditures. The School Board is authorized to transfer budgeted amounts within the departments at the function level of a school system category of expense.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund and the General Capital Projects Fund. The School Fund is integrated only at the level of legal adoption.
6. All budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
7. The City reserves fund balances for certain designated ongoing projects at fiscal year end. Appropriations are then made in the first quarter budget amendments of the following year for the reservation. Appropriations lapse on June 30, for all City units. The City's practice is to appropriate Capital Projects by project. Several supplemental appropriations were necessary during this fiscal year.
8. All budgetary data presented in the accompanying financial statements is the revised budget as of June 30.
9. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriations, is not part of the City's accounting system.

City of Lexington, Virginia
Schedule of Pension and OPEB Funding Progress
June 30, 2009

Primary Government:

City Retirement Plan

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (3) - (2)	Funded Ratio Assets as % of AAL (2) / (3)	Annual Covered Payroll	UAAL as a % of Covered Payroll (4) / (6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
6/30/2008	\$ 15,194,816	\$ 17,313,196	\$ 2,118,380	87.76%	\$ 4,049,209	52.32%
6/30/2007	13,707,726	15,875,018	2,167,292	86.35%	3,833,544	56.53%
6/30/2006	12,249,997	14,506,923	2,256,926	84.44%	3,641,777	61.97%

Discretely Presented Component Unit - School Board:

Non-professional Employees Retirement Plan:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (3) - (2)	Funded Ratio Assets as % of AAL (2) / (3)	Annual Covered Payroll	UAAL as a % of Covered Payroll (4) / (6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
6/30/2008	\$ 519,738	\$ 371,936	\$ (147,802)	139.74%	\$ 74,409	-198.63%
6/30/2007	487,406	342,562	(144,844)	142.28%	69,867	-207.31%
6/30/2006	449,680	315,547	(134,133)	142.51%	67,964	-197.36%

Primary Government and Discretely Presented Component Unit - School Board:

Post-Retirement Medical Plan:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (3) - (2)	Funded Ratio Assets as % of AAL (2) / (3)	Annual Covered Payroll	UAAL as a % of Covered Payroll (4) / (6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
*6/30/2008	\$ -	\$ 976,200	\$ 976,200	0.00%	\$ 4,123,618	23.67%

*Only 1 year is available, as multi-year trend information is referenced in Note 18

SUPPLEMENTARY FINANCIAL STATEMENTS

CAPITAL PROJECTS FUND

MAJOR GOVERNMENTAL FUNDS

Capital Projects Fund - This fund is used to account for the acquisition, construction, and renovation of major capital facilities and other fixed assets. These expenditures are financed from grants, the proceeds of certain City general obligation bonds, and from City general resources.

City of Lexington, Virginia
Capital Projects Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2009

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Miscellaneous	\$ 6,000	\$ 6,000	\$ -	\$ (6,000)
Intergovernmental revenues:				
Federal	-	292,046	60,679	(231,367)
Total revenues	\$ 6,000	\$ 298,046	\$ 60,679	\$ (237,367)
EXPENDITURES				
Current:				
Judicial administration	\$ 800,000	\$ 4,185,443	\$ 4,185,443	\$ -
Public works	100,000	344,901	246,534	98,367
Parks, recreation, and cultural	50,000	408,828	56,694	352,134
Total expenditures	\$ 950,000	\$ 4,939,172	\$ 4,488,671	\$ 450,501
Excess (deficiency) of revenues over (under) expenditures	\$ (944,000)	\$ (4,641,126)	\$ (4,427,992)	\$ 213,134
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ 944,000	\$ 1,619,497	\$ 1,619,497	\$ -
Total other financing sources and uses	\$ 944,000	\$ 1,619,497	\$ 1,619,497	\$ -
Net change in fund balances	\$ -	\$ (3,021,629)	\$ (2,808,495)	\$ 213,134
Fund balances - beginning	-	-	3,033,371	3,033,371
Fund balances - ending	\$ -	\$ (3,021,629)	\$ 224,876	\$ 3,246,505

**DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL
BOARD**

MAJOR GOVERNMENTAL FUNDS

School Operating Fund - The School Operating Fund is a special revenue fund that accounts for the operations of the City's school system. Financing is provided by the State and Federal governments as well as contributions from the General Fund.

City of Lexington, Virginia
Balance Sheet
Discretely Presented Component Unit - School Board
June 30, 2009

	School Operating <u>Fund</u>
ASSETS	
Cash and cash equivalents	\$ 1,031,799
Due from other governmental units	201,783
Prepaid items	35,298
Total assets	<u>\$ 1,268,880</u>
LIABILITIES AND FUND BALANCES	
Liabilities:	
Accounts payable	\$ 180,017
Payroll liabilities	39,100
Contracts payable	375,591
Deferred revenue	44,600
Total liabilities	<u>\$ 639,308</u>
Fund balances:	
Unreserved:	
Designated for carryovers	\$ 629,572
Total fund balances	<u>\$ 629,572</u>
Total liabilities and fund balances	<u>\$ 1,268,880</u>
Amounts reported for governmental activities in the statement of net assets (Exhibit 1) are different because:	
Total fund balances per above	\$ 629,572
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	2,795,401
Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	22,945
Long-term liabilities, including compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds.	(118,545)
Net assets of governmental activities	<u>\$ 3,329,373</u>

City of Lexington, Virginia
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds - Discretely Presented Component Unit - School Board
For the Year Ended June 30, 2009

	School Operating Fund
REVENUES	
Revenue from the use of money and property	\$ 3,272
Charges for services	221,571
Miscellaneous	129
Recovered costs	11,016
Intergovernmental revenues:	
Local government	2,553,320
Commonwealth	3,197,557
Federal	282,617
Total revenues	<u>\$ 6,269,482</u>
EXPENDITURES	
Current:	
Education	\$ 5,686,236
Capital projects	264,754
Total expenditures	<u>\$ 5,950,990</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ 318,492</u>
OTHER FINANCING SOURCES (USES)	
Transfers out	<u>\$ (22,945)</u>
Net change in fund balances	\$ 295,547
Fund balances - beginning	334,025
Fund balances - ending	<u>\$ 629,572</u>
Amounts reported for governmental activities in the statement of activities (Exhibit 2) are different because:	
Net change in fund balances - total governmental funds - per above	\$ 295,547
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which the capital outlays exceeded depreciation in the current period.	3,006
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore are not reported as expenditures in governmental funds.	(21,479)
Change in net assets of governmental activities	<u>\$ 277,074</u>

City of Lexington, Virginia
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Discretely Presented Component Unit - School Board
For the Year Ended June 30, 2009

For the Year Ended June 30, 2007

	School Operating Fund			
	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Revenue from the use of money and property	\$ 600	\$ 600	\$ 3,272	\$ 2,672
Charges for services	214,000	214,000	221,571	7,571
Miscellaneous	600	600	129	(471)
Recovered costs	-	11,015	11,016	1
Intergovernmental revenues:				
Local government	2,530,501	2,553,320	2,553,320	-
Commonwealth	3,305,882	3,228,107	3,197,557	(30,550)
Federal	221,233	364,955	282,617	(82,338)
Total revenues	\$ 6,272,816	\$ 6,372,597	\$ 6,269,482	\$ (103,115)
EXPENDITURES				
Current:				
Education	\$ 6,048,062	\$ 6,322,592	\$ 5,686,236	\$ 636,356
Capital projects	264,754	264,754	264,754	-
Total expenditures	\$ 6,312,816	\$ 6,587,346	\$ 5,950,990	\$ 636,356
Excess (deficiency) of revenues over (under) expenditures	\$ (40,000)	\$ (214,749)	\$ 318,492	\$ 533,241
OTHER FINANCING SOURCES (USES)				
Transfers out	\$ -	\$ -	\$ (22,945)	\$ (22,945)
Net change in fund balances	\$ (40,000)	\$ (214,749)	\$ 295,547	\$ 510,296
Fund balances - beginning	40,000	214,749	334,025	119,276
Fund balances - ending	\$ -	\$ -	\$ 629,572	\$ 629,572

DISCRETELY PRESENTED NONMAJOR COMPONENT UNITS

NON MAJOR GOVERNMENTAL FUNDS

The following discretely presented component units have been determined by the management of the City of Lexington to be nonmajor.

Central Dispatch - This component unit consists of a single General Fund which accounts for the general operations of the Central Dispatch emergency response services. Financing is provided by specific allocations from the state as well as appropriations from the primary government, the City of Buena Vista, the County of Rockbridge, and Virginia Military Institute.

Rockbridge Area Recreation Organization (RARO) - This component unit consists of a single General Fund which accounts for recreational activities provided to area youth and adults. Financing is provided by appropriations from the primary government and the County of Rockbridge.

Regional Tourism - This component unit consists of a single General Fund which accounts for the promotion of tourism in the area. Financing is provided by specific allocations from the state as well as appropriations from the primary government, the City of Buena Vista, and the County of Rockbridge.

City of Lexington, Virginia
Combining Balance Sheet
Discretely Presented Nonmajor Component Units
June 30, 2009

	Rockbridge Area Recreation			
	Central Dispatch	Organization	Regional Tourism	Total
	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>	
ASSETS				
Cash and cash equivalents	\$ 105,358	\$ 1,314	\$ 280,697	\$ 387,369
Receivables (net of allowance for uncollectibles):				
Accounts receivable	87,420	29,270	8	116,698
Due from other governmental units	14,823	7,100	-	21,923
Prepaid items	193	-	160	353
Restricted assets:				
Temporarily restricted:				
Cash and cash equivalents	-	13,151	-	13,151
Total assets	<u>\$ 207,794</u>	<u>\$ 50,835</u>	<u>\$ 280,865</u>	<u>\$ 539,494</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 38,899	\$ 9,106	\$ 6,464	\$ 54,469
Total liabilities	<u>\$ 38,899</u>	<u>\$ 9,106</u>	<u>\$ 6,464</u>	<u>\$ 54,469</u>
Fund balances:				
Reserved for:				
Pickral memorial	\$ -	\$ 13,151	\$ -	\$ 13,151
Unreserved:				
Undesignated	-	2,148	274,401	276,549
Designated for equipment replacement	168,895	26,430	-	195,325
Total fund balances	<u>\$ 168,895</u>	<u>\$ 41,729</u>	<u>\$ 274,401</u>	<u>\$ 485,025</u>
Total liabilities and fund balances	<u>\$ 207,794</u>	<u>\$ 50,835</u>	<u>\$ 280,865</u>	<u>\$ 539,494</u>

Amounts reported for governmental activities in the statement of net assets (Exhibit 1) are different because:

Total fund balances per above	\$ 485,025
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	145,202
Long-term liabilities, including compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds.	(68,200)
Net assets of governmental activities	<u>\$ 562,027</u>

City of Lexington, Virginia
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Discretely Presented Nonmajor Component Units
For the Year Ended June 30, 2009

	Rockbridge Area			
	Recreation			
	Central Dispatch	Organization	Regional Tourism	Total
	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>	
REVENUES				
Revenue from the use of money and property	\$ 600	\$ 367	\$ -	\$ 967
Charges for services	-	129,435	11,769	141,204
Miscellaneous	50	18,566	1,529	20,145
Recovered costs	759,965	214,747	408,212	1,382,924
Intergovernmental revenues:				
Local government	181,284	78,718	170,980	430,982
Commonwealth	98,958	-	-	98,958
Total revenues	<u>\$ 1,040,857</u>	<u>\$ 441,833</u>	<u>\$ 592,490</u>	<u>\$ 2,075,180</u>
EXPENDITURES				
Current:				
Public safety	\$ 1,020,859	\$ -	\$ -	\$ 1,020,859
Parks, recreation, and cultural	-	447,484	-	447,484
Community development	-	-	522,312	522,312
Total expenditures	<u>\$ 1,020,859</u>	<u>\$ 447,484</u>	<u>\$ 522,312</u>	<u>\$ 1,990,655</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ 19,998</u>	<u>\$ (5,651)</u>	<u>\$ 70,178</u>	<u>\$ 84,525</u>
Net change in fund balances	\$ 19,998	\$ (5,651)	\$ 70,178	\$ 84,525
Fund balances - beginning	148,897	47,380	204,223	400,500
Fund balances - ending	<u>\$ 168,895</u>	<u>\$ 41,729</u>	<u>\$ 274,401</u>	<u>\$ 485,025</u>

Amounts reported for governmental activities in the statement of activities (Exhibit 2) are different because:

Net change in fund balances - total governmental funds - per above \$ 84,525

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which the capital outlays exceeded depreciation in the current period. (26,721)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore are not reported as expenditures in governmental funds. (7,364)

Change in net assets of governmental activities \$ 50,440

City of Lexington, Virginia
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Discretely Presented Nonmajor Component Units
For the Year Ended June 30, 2009

	Central Dispatch Fund				Rockbridge Area Recreation Organization (RARO)				Regional Tourism			
	Budgeted Amounts		Actual		Budgeted Amounts		Actual		Budgeted Amounts		Actual	
	Original	Final			Original	Final			Original	Final		
REVENUES												
Revenue from the use of money and property	\$ 2,000	\$ 2,000	\$ 600	\$ (1,400)	\$ -	\$ -	\$ 367	\$ 367	\$ -	\$ -	\$ -	\$ -
Charges for services	-	-	-	-	155,406	155,406	129,435	(25,971)	8,700	8,700	11,769	3,069
Miscellaneous	962	962	50	(912)	15,000	15,000	18,566	3,566	3,050	3,050	1,529	(1,521)
Recovered costs	787,885	787,885	759,965	(27,920)	221,505	221,505	214,747	(6,758)	408,212	408,212	408,212	-
Intergovernmental revenues:												
Local government	188,174	188,174	181,284	(6,890)	89,336	89,336	78,718	(10,618)	170,980	170,980	170,980	-
Commonwealth	100,000	100,000	98,958	(1,042)	-	-	-	-	-	-	-	-
Total revenues	\$ 1,079,021	\$ 1,079,021	\$ 1,040,857	\$ (38,164)	\$ 481,247	\$ 481,247	\$ 441,833	\$ (39,414)	\$ 590,942	\$ 590,942	\$ 592,490	\$ 1,548
EXPENDITURES												
Current:												
Public safety	\$ 1,079,021	\$ 1,099,023	\$ 1,020,859	\$ 78,164	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Parks, recreation, and cultural	-	-	-	-	474,031	483,761	447,484	36,277	-	-	-	-
Community development	-	-	-	-	-	-	-	-	590,942	590,942	522,312	68,630
Total expenditures	\$ 1,079,021	\$ 1,099,023	\$ 1,020,859	\$ 78,164	\$ 474,031	\$ 483,761	\$ 447,484	\$ 36,277	\$ 590,942	\$ 590,942	\$ 522,312	\$ 68,630
Excess (deficiency) of revenues over (under) expenditures	\$ -	\$ (20,002)	\$ 19,998	\$ 40,000	\$ 7,216	\$ (2,514)	\$ (5,651)	\$ (3,137)	\$ -	\$ -	\$ 70,178	\$ 70,178
Net change in fund balances	\$ -	\$ (20,002)	\$ 19,998	\$ 40,000	\$ 7,216	\$ (2,514)	\$ (5,651)	\$ (3,137)	\$ -	\$ -	\$ 70,178	\$ 70,178
Fund balances - beginning	-	20,002	148,897	128,895	-	2,514	47,380	44,866	-	-	204,223	204,223
Fund balances - ending	\$ -	\$ -	\$ 168,895	\$ 168,895	\$ 7,216	\$ -	\$ 41,729	\$ 41,729	\$ -	\$ -	\$ 274,401	\$ 274,401

SUPPORTING SCHEDULES

City of Lexington, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2009

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Primary Government:				
General Fund:				
Revenue from local sources:				
General property taxes:				
Real property taxes	\$ 3,624,000	\$ 3,624,000	\$ 3,651,580	\$ 27,580
Real and personal public service corporation taxes	86,000	86,000	85,872	(128)
Personal property taxes	544,400	544,400	669,630	125,230
Penalties	25,900	25,900	22,699	(3,201)
Interest	12,900	12,900	8,508	(4,392)
Total general property taxes	\$ 4,293,200	\$ 4,293,200	\$ 4,438,289	\$ 145,089
Other local taxes:				
Local sales and use taxes	\$ 806,000	\$ 806,000	\$ 791,395	\$ (14,605)
Consumers' utility taxes	310,200	310,200	312,078	1,878
Consumption taxes	28,100	28,100	27,963	(137)
Business license taxes	540,000	540,000	602,665	62,665
Communications tax	378,500	378,500	335,199	(43,301)
Motor vehicle licenses	64,000	64,000	62,657	(1,343)
Bank stock taxes	50,300	50,300	44,386	(5,914)
Taxes on recordation and wills	71,000	71,000	46,559	(24,441)
Hotel and motel room taxes	212,800	212,800	204,461	(8,339)
Restaurant food taxes	612,000	612,000	633,501	21,501
Total other local taxes	\$ 3,072,900	\$ 3,072,900	\$ 3,060,864	\$ (12,036)
Permits, privilege fees, and regulatory licenses:				
Animal licenses	\$ 5,700	\$ 5,700	\$ 4,390	\$ (1,310)
Building permits	25,453	25,453	70,502	45,049
Excavation permits	700	700	725	25
Hunting and fishing permits	1,000	1,000	3,616	2,616
Total permits, privilege fees, and regulatory licenses	\$ 32,853	\$ 32,853	\$ 79,233	\$ 46,380
Fines and forfeitures:				
Court fines and forfeitures	\$ 60,600	\$ 60,600	\$ 82,882	\$ 22,282
Parking fines	31,100	31,100	37,855	6,755
Courthouse fees	7,000	7,000	3,364	(3,636)
Total fines and forfeitures	\$ 98,700	\$ 98,700	\$ 124,101	\$ 25,401
Revenue from use of money and property:				
Revenue from use of money	\$ 225,700	\$ 249,825	\$ 190,463	\$ (59,362)
Revenue from use of property	23,000	23,000	22,354	(646)
Total revenue from use of money and property	\$ 248,700	\$ 272,825	\$ 212,817	\$ (60,008)
Charges for services:				
Charges for finance	\$ 56,100	\$ 56,100	\$ 56,430	\$ 330
Charges for public safety	6,200	6,200	6,158	(42)
Charges for youth services	4,700	4,700	5,230	530

City of Lexington, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2009

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Primary Government: (Continued)				
General Fund: (Continued)				
Revenue from local sources: (Continued)				
Charges for services: (Continued)				
Charges for rescue services	\$ 316,000	\$ 316,000	\$ 324,662	\$ 8,662
Charges for public works	16,000	16,000	11,370	(4,630)
Charges for grave openings	23,900	23,900	17,587	(6,313)
Charges for burial spaces	26,100	26,100	26,900	800
Charges for recreation	93,600	93,600	87,946	(5,654)
Charges for sanitation and waste removal	142,200	142,200	138,585	(3,615)
Charges for landfill fees	225,000	225,000	165,474	(59,526)
Charges for community activity support	4,500	4,500	4,900	400
Charges for farmer's market	1,700	1,700	2,166	466
Charges for other services	400	400	560	160
Total charges for services	\$ 916,400	\$ 916,400	\$ 847,968	\$ (68,432)
Miscellaneous revenue:				
Miscellaneous	\$ 328,700	\$ 516,817	\$ 650,289	\$ 133,472
County revenue sharing	1,748,400	1,748,400	1,731,551	(16,849)
Total miscellaneous revenue	\$ 2,077,100	\$ 2,265,217	\$ 2,381,840	\$ 116,623
Recovered costs:				
Joint services fire and rescue	\$ 191,600	\$ 191,600	\$ 179,705	\$ (11,895)
Total revenue from local sources	\$ 10,931,453	\$ 11,143,695	\$ 11,324,817	\$ 181,122
Intergovernmental revenues:				
Revenue from the Commonwealth:				
Noncategorical aid:				
Motor vehicle carriers' tax	\$ -	\$ -	\$ 694	\$ 694
Mobile home titling tax	500	500	250	(250)
Motor vehicle rental tax	800	800	1,540	740
State recordation tax	15,464	15,464	13,670	(1,794)
Personal property tax relief funds	581,200	581,200	556,073	(25,127)
Other noncategorical aid	700	700	901	201
Total noncategorical aid	\$ 598,664	\$ 598,664	\$ 573,128	\$ (25,536)
Categorical aid:				
Shared expenses:				
Law enforcement	\$ 218,442	\$ 218,442	\$ 209,380	\$ (9,062)
Commissioner of revenue	83,581	83,581	86,017	2,436
Treasurer	66,442	66,442	69,032	2,590
Registrar/electoral board	37,156	37,156	35,207	(1,949)
Total shared expenses	\$ 405,621	\$ 405,621	\$ 399,636	\$ (5,985)

City of Lexington, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2009

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Primary Government: (Continued)				
General Fund: (Continued)				
Intergovernmental revenues: (Continued)				
Revenue from the Commonwealth: (Continued)				
Categorical aid: (Continued)				
Other categorical aid:				
Street maintenance	\$ 570,700	\$ 579,541	\$ 527,042	\$ (52,499)
Welfare payments	222,321	222,321	141,390	(80,931)
Comprehensive services	44,345	44,345	39,257	(5,088)
Fire program grant	19,100	23,223	22,809	(414)
Four for life	3,500	3,860	3,859	(1)
Forfeited asset sharing	500	500	-	(500)
Arts grant	5,000	5,000	5,000	-
Other categorical aid	-	942	942	-
Total other categorical aid	\$ 865,466	\$ 879,732	\$ 740,299	\$ (139,433)
Total categorical aid	\$ 1,271,087	\$ 1,285,353	\$ 1,139,935	\$ (145,418)
Total revenue from the Commonwealth	\$ 1,869,751	\$ 1,884,017	\$ 1,713,063	\$ (170,954)
Revenue from the federal government:				
Categorical aid:				
Federal Public Assistance	\$ 40,000	\$ 40,000	\$ 23,212	\$ (16,788)
DMVG	5,000	13,338	10,964	(2,374)
DJG	-	-	760	760
CJSG	3,500	3,500	1,289	(2,211)
Department of forestry grant	3,600	13,600	11,500	(2,100)
Total categorical aid	\$ 52,100	\$ 70,438	\$ 47,725	\$ (22,713)
Total revenue from the federal government	\$ 52,100	\$ 70,438	\$ 47,725	\$ (22,713)
Total General Fund	\$ 12,853,304	\$ 13,098,150	\$ 13,085,605	\$ (12,545)
Capital Projects Fund:				
Revenue from local sources:				
Miscellaneous revenue:				
Miscellaneous	\$ 6,000	\$ 6,000	\$ -	\$ (6,000)
Revenue from the federal government:				
Categorical aid:				
TEA - 21 grant	\$ -	\$ 292,046	\$ 60,679	\$ (231,367)
Total revenue from the federal government	\$ -	\$ 292,046	\$ 60,679	\$ (231,367)
Total Capital Projects Fund	\$ 6,000	\$ 298,046	\$ 60,679	\$ (237,367)
Total Primary Government	\$ 12,859,304	\$ 13,396,196	\$ 13,146,284	\$ (249,912)

City of Lexington, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2009

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Discretely Presented Component Units:				
Major Fund:				
Special Revenue Funds:				
School Operating Fund:				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from the use of money	\$ 300	\$ 300	\$ 3,000	\$ 2,700
Revenue from the use of property	300	300	272	(28)
Total revenue from use of money and property	\$ 600	\$ 600	\$ 3,272	\$ 2,672
Charges for services:				
Cafeteria sales	\$ 80,000	\$ 80,000	\$ 86,731	\$ 6,731
Tuition and payments from other divisions	134,000	134,000	134,840	840
Total charges for services	\$ 214,000	\$ 214,000	\$ 221,571	\$ 7,571
Miscellaneous revenue:				
Other miscellaneous	\$ 600	\$ 600	\$ 129	\$ (471)
Recovered costs:				
Other recovered costs	\$ -	\$ 11,015	\$ 11,016	\$ 1
Total revenue from local sources	\$ 215,200	\$ 226,215	\$ 235,988	\$ 9,773
Intergovernmental revenues:				
Revenues from local governments:				
Contribution from City of Lexington, Virginia	\$ 2,530,501	\$ 2,553,320	\$ 2,553,320	\$ -
Total revenues from local governments	\$ 2,530,501	\$ 2,553,320	\$ 2,553,320	\$ -
Revenue from the Commonwealth:				
Categorical aid:				
Share of state sales tax	\$ 533,413	\$ 502,840	\$ 473,709	\$ (29,131)
Basic school aid	1,849,071	1,867,292	1,864,954	(2,338)
Remedial summer education	19,082	17,975	17,975	-
Gifted and talented	16,128	16,128	16,074	(54)
Remedial education	22,725	22,725	22,650	(75)
Enrollment loss	19,891	-	-	-
Special education	133,054	133,054	132,611	(443)
Textbook payment	43,442	43,442	43,298	(144)
Social security fringe benefits	94,567	94,567	94,252	(315)
Retirement fringe benefits	122,058	122,058	121,651	(407)
Group life insurance instructional	4,032	4,032	4,019	(13)
State lottery payments	-	72,557	72,563	6
Early reading intervention	5,486	7,314	7,314	-
Homebound education	770	-	-	-
School construction	195,054	107,479	107,479	-
At risk payments	12,791	12,791	12,791	-
Primary class size	49,344	51,425	51,425	-

City of Lexington, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2009

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Discretely Presented Component Units: (Continued)				
Major Fund: (Continued)				
Special Revenue Funds: (Continued)				
School Operating Fund: (Continued)				
Revenue from the Commonwealth: (Continued)				
Categorical aid: (Continued)				
School food	\$ 1,985	\$ 1,818	\$ 1,818	\$ -
Technology	128,000	102,000	102,000	-
Vocational education	40,686	40,686	40,550	(136)
Mentor teacher program	445	-	-	-
English as a second language	10,122	4,188	4,188	-
Other state funds	3,736	3,736	6,236	2,500
Total categorical aid	\$ 3,305,882	\$ 3,228,107	\$ 3,197,557	\$ (30,550)
Total revenue from the Commonwealth	\$ 3,305,882	\$ 3,228,107	\$ 3,197,557	\$ (30,550)
Revenue from the federal government:				
Categorical aid:				
Title I	\$ 50,680	\$ 48,125	\$ 48,873	\$ 748
Title VI-B - Special education, grants to states	121,553	236,160	153,820	(82,340)
Title II, part A	-	27,859	24,161	(3,698)
Literacy challenge grant	-	540	540	-
Headstart	14,000	14,000	13,511	(489)
School lunch program	35,000	35,000	39,232	4,232
Other federal funds	-	3,271	2,480	(791)
Total categorical aid	\$ 221,233	\$ 364,955	\$ 282,617	\$ (82,338)
Total revenue from the federal government	\$ 221,233	\$ 364,955	\$ 282,617	\$ (82,338)
Total Discretely Presented Component Unit - School Board	\$ 6,272,816	\$ 6,372,597	\$ 6,269,482	\$ (103,115)
Nonmajor Funds:				
Central Dispatch Fund:				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from the use of property	\$ 2,000	\$ 2,000	\$ 600	\$ (1,400)
Miscellaneous revenue:				
Other miscellaneous	\$ 962	\$ 962	\$ 50	\$ (912)
Recovered costs:				
City of Buena Vista	\$ 166,289	\$ 166,289	\$ 160,201	\$ (6,088)
County of Rockbridge	596,276	596,276	574,444	(21,832)
VMI	25,320	25,320	25,320	-
Total recovered costs	\$ 787,885	\$ 787,885	\$ 759,965	\$ (27,920)
Total revenue from local sources	\$ 790,847	\$ 790,847	\$ 760,615	\$ (30,232)

City of Lexington, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2009

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Discretely Presented Component Units: (Continued)				
Special Revenue Funds: (Continued)				
Nonmajor Funds: (Continued)				
Central Dispatch Fund: (Continued)				
Intergovernmental revenues:				
Revenues from local governments:				
Contribution from City of Lexington, Virginia	\$ 188,174	\$ 188,174	\$ 181,284	\$ (6,890)
Revenue from the Commonwealth:				
Categorical aid:				
Virginia wireless	\$ 100,000	\$ 100,000	\$ 98,958	\$ (1,042)
Total Central Dispatch Fund	\$ 1,079,021	\$ 1,079,021	\$ 1,040,857	\$ (38,164)
Rockbridge Area Recreation Organization (RARO):				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from the use of money	\$ -	\$ -	\$ 367	\$ 367
Charges for services:				
Charges for programs	\$ 155,406	\$ 155,406	\$ 129,435	\$ (25,971)
Miscellaneous revenue:				
Other miscellaneous	\$ 15,000	\$ 15,000	\$ 18,566	\$ 3,566
Recovered costs:				
County of Rockbridge	\$ 221,505	\$ 221,505	\$ 214,747	\$ (6,758)
Total revenue from local sources	\$ 391,911	\$ 391,911	\$ 363,115	\$ (28,796)
Intergovernmental revenues:				
Revenues from local governments:				
Contribution from City of Lexington, Virginia	\$ 89,336	\$ 89,336	\$ 78,718	\$ (10,618)
Total Rockbridge Area Recreation Organization (RARO)	\$ 481,247	\$ 481,247	\$ 441,833	\$ (39,414)

City of Lexington, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2009

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Discretely Presented Component Units: (Continued)				
Special Revenue Funds: (Continued)				
Nonmajor Funds: (Continued)				
Regional Tourism:				
Revenue from local sources:				
Charges for services:				
Charges for tours	\$ 4,000	\$ 4,000	\$ 6,382	\$ 2,382
Other charges for services	4,700	4,700	5,387	687
Total charges for services	<u>\$ 8,700</u>	<u>\$ 8,700</u>	<u>\$ 11,769</u>	<u>\$ 3,069</u>
Miscellaneous revenue:				
Other miscellaneous	<u>\$ 3,050</u>	<u>\$ 3,050</u>	<u>\$ 1,529</u>	<u>\$ (1,521)</u>
Recovered costs:				
City of Buena Vista	\$ 36,778	\$ 36,778	\$ 36,778	\$ -
County of Rockbridge	371,434	371,434	371,434	-
Total recovered costs	<u>\$ 408,212</u>	<u>\$ 408,212</u>	<u>\$ 408,212</u>	<u>\$ -</u>
Total revenue from local sources	<u>\$ 419,962</u>	<u>\$ 419,962</u>	<u>\$ 421,510</u>	<u>\$ 1,548</u>
Intergovernmental revenues:				
Revenues from local governments:				
Contribution from City of Lexington, Virginia	<u>\$ 170,980</u>	<u>\$ 170,980</u>	<u>\$ 170,980</u>	<u>\$ -</u>
Total Regional Tourism	<u>\$ 590,942</u>	<u>\$ 590,942</u>	<u>\$ 592,490</u>	<u>\$ 1,548</u>
Total Nonmajor Component Units	<u>\$ 2,151,210</u>	<u>\$ 2,151,210</u>	<u>\$ 2,075,180</u>	<u>\$ (76,030)</u>

City of Lexington, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2009

<u>Fund, Function, Activity and Element</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Primary Government:				
General Fund:				
General government administration:				
Legislative:				
City council	\$ 48,266	\$ 53,066	\$ 52,985	\$ 81
General and financial administration:				
City manager	\$ 177,456	\$ 178,052	\$ 172,946	\$ 5,106
Director of finance	285,240	287,590	265,177	22,413
City attorney	49,900	49,900	58,052	(8,152)
Commissioner of revenue	219,402	219,402	215,446	3,956
Assessment board	2,600	2,600	1,875	725
Treasurer	182,467	182,467	165,163	17,304
Human Resources	64,448	64,448	59,825	4,623
Information technology	138,999	138,999	128,793	10,206
Total general and financial administration	\$ 1,120,512	\$ 1,123,458	\$ 1,067,277	\$ 56,181
Board of elections:				
Electoral board and officials	\$ 57,364	\$ 57,364	\$ 54,476	\$ 2,888
Total general government administration	\$ 1,226,142	\$ 1,233,888	\$ 1,174,738	\$ 59,150
Judicial administration:				
Courts:				
Judicial services	\$ 225,600	\$ 225,600	\$ 163,582	\$ 62,018
VJCCA services	44,426	44,426	39,842	4,584
Total courts	\$ 270,026	\$ 270,026	\$ 203,424	\$ 66,602
Public safety:				
Law enforcement and traffic control:				
Police department	\$ 1,531,946	\$ 1,543,285	\$ 1,457,274	\$ 86,011
Contributions to Central dispatch - component unit	188,174	188,174	181,284	6,890
Total law enforcement and traffic control	\$ 1,720,120	\$ 1,731,459	\$ 1,638,558	\$ 92,901
Fire and rescue services:				
Fire department	\$ 273,723	\$ 282,784	\$ 249,243	\$ 33,541
Rescue services	482,910	483,270	480,394	2,876
Fire department - reserve activity	-	171,305	171,304	1
Rescue services - reserve activity	10,260	10,260	2,887	7,373
Total fire and rescue services	\$ 766,893	\$ 947,619	\$ 903,828	\$ 43,791
Correction and detention:				
Juvenile probation and detention	\$ 50,374	\$ 50,374	\$ 63,929	\$ (13,555)
Special services	88,138	88,138	82,486	5,652
Total correction and detention	\$ 138,512	\$ 138,512	\$ 146,415	\$ (7,903)
Total public safety	\$ 2,625,525	\$ 2,817,590	\$ 2,688,801	\$ 128,789

City of Lexington, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2009

<u>Fund, Function, Activity and Element</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Primary Government: (Continued)				
General Fund: (Continued)				
Public works:				
Maintenance of highways, streets, bridges and sidewalks:				
Highways, streets, bridges and sidewalks	\$ 369,317	\$ 369,317	\$ 338,913	\$ 30,404
Public works labor pool	273,878	273,878	90,728	183,150
Equipment operations	205,458	205,458	191,214	14,244
Pavement Maintenance	183,625	192,466	162,338	30,128
Drain Maintenance	36,482	36,482	44,427	(7,945)
Snow Removal	73,256	73,256	36,665	36,591
Traffic	221,586	221,586	222,064	(478)
Parking Garage	-	-	14,519	(14,519)
Emergency Need	2,553	2,553	29	2,524
Community activity support	46,084	50,139	54,233	(4,094)
Public works administration	167,903	167,903	144,580	23,323
Total maintenance of highways, streets, bridges & sidewalks	\$ 1,580,142	\$ 1,593,038	\$ 1,299,710	\$ 293,328
Sanitation and waste removal:				
Solid waste management	\$ 1,110,937	\$ 1,110,937	\$ 948,922	\$ 162,015
Maintenance of general buildings and grounds:				
General properties	\$ 104,269	\$ 104,269	\$ 127,157	\$ (22,888)
Park maintenance	195,678	225,773	229,964	(4,191)
Cemeteries maintenance	151,397	185,210	149,322	35,888
Total maintenance of general buildings and grounds	\$ 451,344	\$ 515,252	\$ 506,443	\$ 8,809
Total public works	\$ 3,142,423	\$ 3,219,227	\$ 2,755,075	\$ 464,152
Health and welfare:				
Health:				
Health and welfare	\$ 653,637	\$ 654,466	\$ 500,269	\$ 154,197
Youth services administration	67,898	67,898	64,746	3,152
Total health	\$ 721,535	\$ 722,364	\$ 565,015	\$ 157,349
Education:				
Other instructional costs:				
Contribution to City School Board - component unit	\$ 2,530,501	\$ 2,553,320	\$ 2,553,320	\$ -
Parks, recreation, and cultural:				
Parks and recreation:				
Leisure services contributions	\$ 255,492	\$ 975,057	\$ 970,723	\$ 4,334
Municipal swimming pool	110,495	110,495	113,102	(2,607)
Indoor swimming pool	-	125,000	125,000	-
Contribution to RARO - component unit	89,336	89,336	78,718	10,618
Total parks and recreation	\$ 455,323	\$ 1,299,888	\$ 1,287,543	\$ 12,345

City of Lexington, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2009

<u>Fund, Function, Activity and Element</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Primary Government: (Continued)				
General Fund: (Continued)				
Community development:				
Planning and community development:				
Planning and development	\$ 318,086	\$ 353,086	\$ 298,057	\$ 55,029
Housing program	4,800	31,544	18,218	13,326
Safe and sound	5,000	5,000	486	4,514
Tree board	38,217	38,217	35,269	2,948
Community development contributions	135,181	149,000	145,783	3,217
Water quality management	15,000	48,015	27,786	20,229
Contribution to regional tourism - component unit	170,980	170,980	170,980	-
Total planning and community development	\$ 687,264	\$ 795,842	\$ 696,579	\$ 99,263
Nondepartmental:				
Nondepartmental	\$ 147,960	\$ 116,941	\$ 94,762	\$ 22,179
Debt service:				
Principal retirement	\$ 689,358	\$ 689,358	\$ 689,358	\$ -
Interest and other fiscal charges	574,447	574,447	574,412	35
Total debt service	\$ 1,263,805	\$ 1,263,805	\$ 1,263,770	\$ 35
Total General Fund	\$ 13,070,504	\$ 14,292,891	\$ 13,283,027	\$ 1,009,864
Capital Projects Fund:				
Judicial administration:				
Courts:				
Circuit court upgrade	\$ 800,000	\$ 4,185,443	\$ 4,185,443	\$ -
Public works:				
Maintenance of highways, streets, bridges and sidewalks:				
Corridor improvements	\$ -	\$ 50,039	\$ -	\$ 50,039
Randolph street utility line	-	146,033	145,909	124
Miscellaneous access improvements	5,000	5,000	4,689	311
Downtown improvements	-	13,298	-	13,298
Nelson Street Bridge	-	34,882	288	34,594
Public works administration	95,000	95,649	95,648	1
Total maintenance of highways, streets, bridges and sidewalks	\$ 100,000	\$ 344,901	\$ 246,534	\$ 98,367
Total public works	\$ 100,000	\$ 344,901	\$ 246,534	\$ 98,367

City of Lexington, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2009

<u>Fund, Function, Activity and Element</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Primary Government: (Continued)				
Capital Projects Fund: (Continued)				
Parks, recreation, and cultural:				
Parks and recreation:				
Brewbaker	\$ 50,000	\$ 56,400	\$ 34,801	\$ 21,599
Jordan's point park	-	219,307	21,893	197,414
Maury river pedestrian bridge	-	128,121	-	128,121
BH Parking	-	5,000	-	5,000
Total parks and recreation	\$ 50,000	\$ 408,828	\$ 56,694	\$ 352,134
Total Capital Projects Fund	\$ 950,000	\$ 4,939,172	\$ 4,488,671	\$ 450,501
Total Primary Government	\$ 14,020,504	\$ 19,232,063	\$ 17,771,698	\$ 1,460,365
Discretely Presented Component Units:				
Special revenue funds:				
Major Fund:				
School Operating Fund:				
Education:				
Administration of schools:				
Administration, attendance, & health	\$ 393,930	\$ 393,930	\$ 383,385	\$ 10,545
Instruction costs:				
Classroom instruction	\$ 5,039,420	\$ 5,313,950	\$ 4,752,872	\$ 561,078
School food services:				
Administration of school food program	\$ 170,012	\$ 170,012	\$ 162,282	\$ 7,730
Operating costs:				
Operation and maintenance of school plant	\$ 444,700	\$ 444,700	\$ 387,697	\$ 57,003
Total education	\$ 6,048,062	\$ 6,322,592	\$ 5,686,236	\$ 636,356
Capital projects:				
Middle school	\$ 264,754	\$ 264,754	\$ 264,754	\$ -
Total Discretely Presented Component Unit - School Board	\$ 6,312,816	\$ 6,587,346	\$ 5,950,990	\$ 636,356
Nonmajor Funds:				
Central Dispatch Fund:				
Public safety:				
Law enforcement and traffic control:				
Central dispatch	\$ 1,079,021	\$ 1,099,023	\$ 1,020,859	\$ 78,164
Total Central Dispatch Fund	\$ 1,079,021	\$ 1,099,023	\$ 1,020,859	\$ 78,164

City of Lexington, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2009

<u>Fund, Function, Activity and Element</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Discretely Presented Component Units: (Continued)				
Special Revenue Funds: (Continued)				
Nonmajor Funds:				
Rockbridge Area Recreation Organization (RARO):				
Parks, recreation, and cultural:				
Parks and recreation:				
Administration	\$ 291,585	\$ 301,315	\$ 293,521	\$ 7,794
Programs	182,446	182,446	153,963	28,483
Total parks and recreation	<u>\$ 474,031</u>	<u>\$ 483,761</u>	<u>\$ 447,484</u>	<u>\$ 36,277</u>
Total Rockbridge Area Recreation Organization (RARO)	<u>\$ 474,031</u>	<u>\$ 483,761</u>	<u>\$ 447,484</u>	<u>\$ 36,277</u>
Regional Tourism:				
Community development:				
Planning and community development:				
Tourism	\$ 590,942	\$ 590,942	\$ 522,312	\$ 68,630
Total Regional Tourism	<u>\$ 590,942</u>	<u>\$ 590,942</u>	<u>\$ 522,312</u>	<u>\$ 68,630</u>
Total Nonmajor Component Units	<u>\$ 2,143,994</u>	<u>\$ 2,173,726</u>	<u>\$ 1,990,655</u>	<u>\$ 183,071</u>

STATISTICAL SECTION

STATISTICAL SECTION

This part of the City of Lexington, Virginia's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the government's overall financial health.

Contents	Page
Financial Trends	84
<i>These schedules contain trend information to help the reader understand how the government's financial performance and well-being have changed over time.</i>	
Revenue Capacity	92
<i>These schedules contain information to help the reader assess the government's most significant local revenue source, the property tax.</i>	
Debt Capacity	96
<i>These schedules present information to help the reader assess the affordability of the government's current levels of outstanding debt and the government's ability to issue additional debt in the future.</i>	
Demographic and Economic Information	100
<i>These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.</i>	
Operating Information	102
<i>These shedules contain service and infrastructure data to help the reader understand how the information in the government's financial report relates to the services the government provides and the activities it performs.</i>	

Sources: Unless otherwise noted, the information in these tables is derived from the comprehensive annual financial reports for the relevant year. The City implemented GASB 34 in the fiscal year 2003; schedules presenting government-wide information include information beginning in that year.

Table 1

City of Lexington, Virginia

Net Assets by Component

Last Seven Fiscal Years (1)

(accrual basis of accounting)

(amounts expressed in thousands)

	2003	2004	2005	2006	2007	2008	2009
Governmental activities							
Invested in capital assets, net of related debt	\$ 3,696	\$ 2,164	\$ 6,443	\$ (4,091)	\$ 9,404	\$ 11,611	\$ 6,086
Restricted	1,272	1,322	1,404	1,394	1,522	1,434	1,269
Unrestricted	7,629	6,930	7,101	18,925	7,113	4,219	7,682
Total governmental activities net assets	\$ 12,597	\$ 10,416	\$ 14,948	\$ 16,228	\$ 18,039	\$ 17,264	\$ 15,037
Business-type activities							
Invested in capital assets, net of related debt	\$ 694	\$ 963	\$ 1,247	\$ 1,332	\$ 1,635	\$ 1,812	\$ 1,864
Unrestricted	2,054	1,542	1,188	954	546	561	627
Total business-type activities	\$ 2,748	\$ 2,505	\$ 2,435	\$ 2,286	\$ 2,181	\$ 2,373	\$ 2,491
Primary Government							
Invested in capital assets, net of related debt	\$ 4,390	\$ 3,127	\$ 7,690	\$ (2,759)	\$ 11,039	\$ 13,423	\$ 7,950
Restricted for perpetual care	1,272	1,322	1,404	1,394	1,522	1,434	1,269
Unrestricted	9,683	8,472	8,289	19,879	7,659	4,780	8,309
Total primary government net assets	\$ 15,345	\$ 12,921	\$ 17,383	\$ 18,514	\$ 20,220	\$ 19,637	\$ 17,528

(1) Accrual basis financial information is available back to fiscal year 2003 when the city implemented GASB 34.

City of Lexington, Virginia
Changes in Net Assets
Last Seven Fiscal Years (1)
(accrual basis of accounting)
(amounts expressed in thousands)

	Fiscal Year						
	2003	2004	2005	2006	2007	2008	2009
Expenses							
Governmental activities:							
General government administration	\$ 863	\$ 1,114	\$ 929	\$ 1,036	\$ 1,121	\$ 1,299	\$ 1,252
Judicial administration	105	433	474	551	1,281	3,252	2,813
Public Safety	1,677	1,863	2,082	2,151	2,178	2,425	2,684
Public Works	2,256	2,036	2,468	2,793	2,362	3,005	3,063
Health and welfare	495	749	746	654	569	628	565
Education	1,844	2,066	1,758	1,806	1,893	2,187	2,553
Parks, recreation and cultural	463	401	468	529	518	672	871
Community development	492	518	541	558	811	759	706
Non-departmental	218	188	156	38	-	-	10
Interest on long-term debt	5	6	3	383	725	615	584
Total governmental activities expenses	\$ 8,418	\$ 9,374	\$ 9,625	\$ 10,499	\$ 11,458	\$ 14,842	\$ 15,101
Business-type activities:							
Water & Sewer	\$ 3,623	\$ 3,730	\$ 4,119	\$ 4,348	\$ 4,311	\$ 4,478	\$ 4,497
Total business-type activities	\$ 3,623	\$ 3,730	\$ 4,119	\$ 4,348	\$ 4,311	\$ 4,478	\$ 4,497
Total primary government expenses	\$ 12,041	\$ 13,104	\$ 13,744	\$ 14,847	\$ 15,769	\$ 19,320	\$ 19,598

City of Lexington, Virginia
Changes in Net Assets
Last Seven Fiscal Years (1)
(accrual basis of accounting)
(amounts expressed in thousands)

	Fiscal Year						
	2003	2004	2005	2006	2007	2008	2009
Program Revenues							
Governmental activities:							
Charges for services:							
General government administration	\$ -	\$ 312	\$ 47	\$ 51	\$ 60	\$ 52	\$ 57
Judicial administration	46	-	61	60	-	106	124
Public Safety	182	164	388	318	274	386	410
Public Works	376	272	322	375	407	349	365
Health and welfare	2	2	2	2	3	3	5
Parks, recreation and cultural	219	123	67	73	84	93	88
Community development	-	3	-	-	1	2	2
Operating grants and contributions	1,020	1,264	1,327	1,269	1,332	1,327	1,188
Capital grants and contributions	177	-	15	44	136	100	61
Total governmental activities program revenues	\$ 2,022	\$ 2,140	\$ 2,229	\$ 2,192	\$ 2,297	\$ 2,418	\$ 2,300
Business-type activities:							
Charges for services:							
Water & Sewer	\$ 3,415	\$ 3,473	\$ 4,049	\$ 4,212	\$ 4,206	\$ 4,669	\$ 4,615
Total business-type activities program revenues	\$ 3,415	\$ 3,473	\$ 4,049	\$ 4,212	\$ 4,206	\$ 4,669	\$ 4,615
Total primary government program revenues	\$ 5,437	\$ 5,613	\$ 6,278	\$ 6,404	\$ 6,503	\$ 7,087	\$ 6,915
Net (expense)/revenue:							
Governmental activities	\$ (6,396)	\$ (7,234)	\$ (7,396)	\$ (8,307)	\$ (9,161)	\$ (12,424)	\$ (12,801)
Business-type activities	(208)	(257)	(70)	(136)	(105)	191	118
Total primary government net expense	\$ (6,604)	\$ (7,491)	\$ (7,466)	\$ (8,443)	\$ (9,266)	\$ (12,233)	\$ (12,683)
General Revenues and Other Changes in Net Assets							
Governmental activities:							
Taxes:							
Property taxes	\$ 3,079	\$ 3,048	\$ 3,085	\$ 3,922	\$ 3,990	\$ 4,141	\$ 4,337
Local sales and use taxes	641	661	646	710	749	795	791
Taxes on recordation and wills	39	46	67	70	75	61	47
Motor vehicle licenses taxes	65	65	65	65	64	65	63

City of Lexington, Virginia
Changes in Net Assets
Last Seven Fiscal Years (1)
(accrual basis of accounting)
(amounts expressed in thousands)

	Fiscal Year						
	2003	2004	2005	2006	2007	2008	2009
General Revenues and Other Changes in Net Assets (Continued)							
Governmental activities: (Continued)							
Taxes: (Continued)							
Consumer utility taxes	\$ 508	\$ 515	\$ 520	\$ 504	\$ 399	\$ 310	\$ 312
Business licenses taxes	425	473	488	528	552	608	603
Restaurant food taxes	496	542	553	551	580	597	634
Hotel and motel room taxes	103	109	175	188	203	207	204
Communications taxes	-	-	-	-	158	369	335
Other local taxes	195	180	180	195	135	66	72
Unrestricted grants and contributions	579	604	554	590	613	638	573
Unrestricted revenues from use of money and property	290	130	416	684	1,204	797	222
Miscellaneous	1,362	1,683	1,451	1,568	1,999	2,995	2,382
Transfers	-	-	-	12	-	-	-
Total governmental activities	\$ 7,782	\$ 8,056	\$ 8,200	\$ 9,587	\$ 10,721	\$ 11,649	\$ 10,575
Business-type activities:							
Miscellaneous	\$ 15	\$ 13	\$ -	\$ -	\$ -	\$ -	\$ -
Transfers	-	-	-	(12)	-	-	-
Total business-type activities	\$ 15	\$ 13	\$ -	\$ (12)	\$ -	\$ -	\$ -
Total primary government	\$ 7,797	\$ 8,069	\$ 8,200	\$ 9,575	\$ 10,721	\$ 11,649	\$ 10,575
Change in Net Assets							
Governmental activities	\$ 1,387	\$ 822	\$ 804	\$ 1,280	\$ 1,560	\$ (775)	\$ (2,226)
Business-type activities	(193)	(244)	(70)	(148)	(105)	191	118
Total primary government	\$ 1,194	\$ 578	\$ 734	\$ 1,132	\$ 1,455	\$ (584)	\$ (2,108)

(1) Accrual basis financial information is available back to fiscal year 2003 when the city implemented GASB 34.

Table 3

City of Lexington, Virginia
Governmental Activities Tax Revenues by Source
Last Seven Fiscal Years (1)
(modified accrual basis of accounting)

Fiscal Year	Property Tax	Local Sales and Use Tax	Consumer Utility Tax (2)	Business License Tax	Communications Sales and Use Tax (2)	Motor Vehicle			Recordation and Wills Tax	Hotel & Motel Room Tax	Restaurant Food Tax	Other Local Tax (2) (3)	Total
						License Tax	Stock Tax	Bank Tax					
2008-09	\$ 4,438,289	\$ 791,395	\$ 312,078	\$ 602,665	\$ 335,199	\$ 62,657	\$ 44,386	\$ 46,559	\$ 204,461	\$ 633,501	\$ 27,963	\$ 7,499,153	
2007-08	4,144,128	794,444	310,248	607,520	368,921	65,470	39,413	61,427	207,005	596,602	27,416	7,222,594	
2006-07	3,914,166	749,153	398,743	552,145	158,198	63,592	50,363	74,877	202,549	580,080	84,681	6,828,547	
2005-06	3,337,123	710,095	503,772	527,575	-	64,867	76,839	70,330	187,805	551,363	117,427	6,147,196	
2004-05	3,125,624	646,198	519,509	488,447	-	65,320	55,932	67,102	174,923	552,946	123,657	5,819,658	
2003-04	3,112,731	661,378	515,744	472,684	-	64,983	49,275	45,628	109,141	541,988	130,481	5,704,033	
2002-03	2,907,527	641,128	508,035	424,693	-	64,687	56,395	39,058	103,186	496,443	138,315	5,379,467	

(1) Accrual basis financial information is available back to fiscal year 2003 when the city implemented GASB 34.

(2) The state began a 5% communications sales and use tax on January 1, 2007. Telephone utility taxes, local E-911 taxes, and cable television system franchise fees are collected thru December 31, 2006 and will no longer be a local tax. The state collects the new local tax and redistributes .076958% of the total collections based on a pre-certified calculation of each jurisdiction's allocation percentage as reported to the State Auditor of Public Accounts for revenue collections for the fiscal year ended June 30, 2006.

(3) Beginning 2007-08, this consists only of the business consumption tax revenue.

Table 4

City of Lexington, Virginia
Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
General Fund										
Reserved	\$ 24,637	\$ 28,739	\$ 38,104	\$ 30,339	\$ -	\$ 35,900	\$ 35,900	\$ -	\$ -	\$ -
Unreserved	2,955,328	3,380,481	5,638,868	5,893,300	5,805,400	6,902,072	7,488,971	8,573,394	8,690,276	6,842,571
Total general fund	\$ 2,979,965	\$ 3,409,220	\$ 5,676,972	\$ 5,923,639	\$ 5,805,400	\$ 6,937,972	\$ 7,524,871	\$ 8,573,394	\$ 8,690,276	\$ 6,842,571
All other governmental funds										
Reserved, reported in:										
Permanent Fund	\$ 1,388,989	\$ 1,342,624	\$ 1,242,095	\$ 1,272,000	\$ 1,321,765	\$ 1,404,436	\$ 1,394,353	\$ 1,521,393	\$ 1,434,253	\$ 1,268,677
Capital Projects	513,852	359,000	511,000	-	-	-	-	-	-	-
Special revenues	3,242	1,602	3,434	342,932	183,400	-	-	-	-	-
Unreserved, reported in:										
Capital Projects	1,671,331	1,731,038	1,512,301	306,616	269,430	254,488	10,890,018	8,912,026	3,033,371	224,876
Special revenues	(436)	1,204	(628)	2,387	1,897	-	-	-	-	-
Total all other governmental funds	\$ 3,576,978	\$ 3,435,468	\$ 3,268,202	\$ 1,923,935	\$ 1,776,492	\$ 1,658,924	\$ 12,284,371	\$ 10,433,419	\$ 4,467,624	\$ 1,493,553

Table 5

City of Lexington, Virginia
Changes in Fund Balances of Governmental Funds
Last Seven Fiscal Years (1)
(modified accrual basis of accounting)
(amounts expressed in thousands)

	Fiscal Year						
	2003	2004	2005	2006	2007	2008	2009
Revenues							
General property taxes	\$ 2,908	\$ 3,113	\$ 3,126	\$ 3,337	\$ 3,914	\$ 4,144	\$ 4,438
Other local taxes	2,472	2,591	2,694	2,810	2,914	3,078	3,061
Licenses and permits	30	50	145	56	180	108	79
Fines and forfeitures	97	82	105	94	104	106	124
Use of money & property	291	130	415	684	1,204	797	222
Charges for services	415	548	637	729	829	777	848
Miscellaneous	1,363	1,529	1,451	1,568	1,999	2,995	2,382
Recovered costs	281	121	158	207	208	255	180
Intergovernmental	1,776	1,867	1,896	1,903	2,082	2,065	1,821
Total revenues	\$ 9,633	\$ 10,031	\$ 10,627	\$ 11,388	\$ 13,434	\$ 14,325	\$ 13,155
Expenditures							
General government administration	\$ 857	\$ 865	\$ 901	\$ 1,000	\$ 1,025	\$ 1,141	\$ 1,175
Judicial administration	56	433	474	551	1,385	3,231	4,389
Public safety	1,662	1,905	2,100	3,049	2,340	2,377	2,689
Public works	2,132	2,271	2,583	2,738	2,140	2,604	3,002
Health and Welfare	497	749	745	653	569	628	565
Parks, recreation and cultural	420	372	474	516	487	1,484	2,553
Community development	491	515	537	575	768	1,357	1,539
Education	1,844	2,066	1,758	1,806	1,893	757	697
Nondepartmental	5	4	3	38	36	193	95
Capital outlay(2)	1,544	63	-	313	2,164	4,794	-
Debt service:							
Principal	669	716	668	697	748	1,000	689
Interest	218	195	167	390	681	608	574
Total Expenditures	\$ 10,395	\$ 10,154	\$ 10,410	\$ 12,326	\$ 14,236	\$ 20,174	\$ 17,967
Excess of revenues over (under) expenditures	\$ (762)	\$ (123)	\$ 217	\$ (938)	\$ (802)	\$ (5,849)	\$ (4,812)
Other financing sources (uses)							
Transfers in	\$ 397	\$ 742	\$ 758	\$ 11,457	\$ 399	\$ 970	\$ 1,640
Transfers out	(397)	(742)	(758)	(11,445)	(399)	(970)	(1,650)
Bonds issued	385	-	-	12,000	-	-	-
Payments to refunded bond escrow agent	(385)	-	-	-	-	-	-
Sale of capital assets	-	72	-	138	-	-	-
Total other financing sources (uses)	\$ -	\$ 72	\$ -	\$ 12,150	\$ -	\$ -	\$ (10)
Net change in fund balances	\$ (762)	\$ (51)	\$ 217	\$ 11,212	\$ (802)	\$ (5,849)	\$ (4,822)
Debt service as a percentage of noncapital expenditures	10.0%	9.0%	8.0%	9.0%	11.8%	10.5%	7.0%

(1) Information available for seven years only.

(2) Capital outlay has been reclassified as a separate item for calculation of debt service as a percentage of noncapital expenditures.

Table 6

City of Lexington, Virginia
General Governmental Expenditures by Function (1)
Last Ten Fiscal Years

Fiscal Year	General Government Administration	Judicial Administration	Public Safety (2)	Public Works	Health and Welfare	Education (2)	Parks, Recreation, and Cultural (2)	Community Development (2)	Capital Outlay and Non-departmental	Debt Service	Total
2008-09	\$ 1,174,738	\$ 4,388,867	\$ 3,528,376	\$ 3,001,609	\$ 565,015	\$ 5,686,236	\$ 1,907,914	\$ 1,047,911	\$ 359,516	\$ 1,263,770	\$ 22,923,952
2007-08	1,296,758	3,230,809	3,219,052	6,496,448	628,278	5,852,973	1,698,457	1,045,409	192,983	1,607,612	25,268,779
2006-07	1,040,800	1,384,967	3,691,711	3,713,453	569,253	5,403,947	913,248	1,069,282	35,975	1,429,796	19,252,432
2005-06	999,578	550,742	3,779,809	2,738,068	653,409	5,463,824	726,170	966,198	350,996	1,086,882	17,315,676
2004-05	900,640	474,092	2,782,569	2,583,410	745,121	5,334,003	677,883	914,091	38,249	833,905	15,283,963
2003-04	864,517	433,481	2,498,341	2,270,840	749,376	4,770,134	576,094	867,093	120,046	911,018	14,060,940
2002-03	856,719	55,920	2,304,799	2,131,821	496,689	4,500,186	686,484	971,405	1,677,516	887,544	14,569,083
2001-02	809,057	58,260	2,259,183	2,009,110	412,206	4,453,840	719,221	1,077,661	3,411,865	780,759	15,991,162
2000-01	783,726	70,140	2,162,307	1,951,446	442,933	4,399,047	646,922	1,269,571	605,542	535,707	12,867,341
1999-00	730,000	65,060	1,994,830	1,915,118	480,104	4,223,871	576,399	1,044,158	746,578	529,024	12,305,142

(1) Includes General, Capital Projects and Permanent funds of the Primary Government and its Discretely Presented Component Units.

(2) Excludes contribution from Primary Government to Discretely Presented Component Units.

Table 7

City of Lexington, Virginia
General Governmental Revenues by Source (1)
Last Ten Fiscal Years

Fiscal Year	General Property Taxes		Other Local Taxes		Permits, Privilege Fees, Regulatory Licenses		Fines and Forfeitures		Revenue from the Use of Money and Property		Charges for Services		Miscellaneous		Recovered Costs		Inter-governmental (2)		Total	
2008-09	\$	4,438,289	\$	3,060,864	\$	79,233	\$	124,101	\$	225,741	\$	1,210,743	\$	2,402,114	\$	1,573,645	\$	5,400,599	\$	18,515,329
2007-08		4,144,128		3,078,466		108,095		106,274		803,145		1,133,526		3,022,196		1,492,906		5,514,358		19,403,094
2006-07		3,914,166		2,914,381		180,066		103,998		1,210,016		1,105,553		2,026,288		1,667,106		5,528,163		18,649,737
2005-06		3,337,123		2,810,073		56,033		93,712		693,539		955,631		1,582,795		1,368,560		5,551,689		16,449,155
2004-05		3,125,624		2,694,034		144,572		105,092		418,290		853,983		1,458,544		1,301,229		5,378,683		15,480,051
2003-04		3,112,731		2,591,302		49,637		82,184		131,132		763,937		1,542,882		1,178,062		4,485,771		13,937,638
2002-03		2,907,527		2,471,940		30,455		96,673		297,584		1,277,160		1,465,768		904,179		4,391,787		13,843,073
2001-02		2,981,508		2,454,349		216,269		97,910		426,194		1,215,547		1,365,523		910,291		4,304,518		13,972,109
2000-01		2,589,111		2,356,821		107,839		109,986		607,596		1,203,141		1,254,661		911,183		4,376,761		13,517,099
1999-00		3,042,259		2,285,413		33,463		111,443		532,152		962,116		1,078,434		807,568		3,945,483		12,798,331

(1) Includes General, Capital Projects and Permanent funds of the Primary Government and its Discretely Presented Component Units.

(2) Excludes contributions from Primary Government to Discretely Presented Component Units.

Table 8

City of Lexington, Virginia
 Assessed Value and Estimated Actual Value of Taxable Property
 Last Four Fiscal Years (1)
 (in thousands of dollars)

Fiscal Year Ended June 30,	Real Property		Personal Property		Less: Tax Exempt Real Property	Total Taxable Assessed Value	Total Direct Tax Rate	Estimated Actual Taxable Value	Assessed Value as a percentage of Actual Value
	Residential Property	Commercial Property	Motor Vehicles	Other					
2009	\$ 481,194	\$ 650,986	\$ 26,873	\$ 3,386	\$ 531,597	\$ 634,843	\$ 7.936	\$ 1,166,440	54.43%
2008	484,024	650,337	31,689	4,774	531,915	638,909	7.907	1,170,824	54.57%
2007	471,783	648,314	30,109	3,610	534,495	619,321	7.456	1,153,816	53.68%
2006	317,356	553,584	30,084	3,927	460,071	444,880	9.204	904,951	49.16%

(1) City began recording this information in 2006.

Source: Commissioner of Revenue

Table 9

City of Lexington, Virginia
Property Tax Rates (1)
Last Ten Fiscal Years

Fiscal Year	Real Estate	Personal Property	Mobile Homes	Machinery and Tools	Public Utility	
					Real Estate	Personal Property
2008-09	\$ 0.64	\$ 3.95	\$ 0.64	\$ 3.95	\$ 0.62	\$ 3.95
2007-08	0.60	3.95	0.60	3.95	0.58	3.95
2006-07	0.56	3.95	0.56	3.95	0.62	3.95
2005-06	0.67	3.95	0.67	3.95	0.66	3.95
2004-05	0.64	3.95	0.64	3.95	0.64	3.95
2003-04	0.64	3.95	0.64	3.95	0.69	3.95
2002-03	0.73	3.95	0.73	3.95	0.72	3.95
2001-02	0.70	3.95	0.70	3.95	0.69	3.95
2000-01	0.67	3.95	0.67	3.95	0.71	3.95
1999-00	0.74	3.95	0.74	3.95	0.73	3.95

(1) Per \$100 of assessed value.

Source: Commissioner of Revenue

Table 10

City of Lexington, Virginia
Principal Taxpayers
June 30, 2009

Taxpayer Name	Fiscal year ended June 30, 2008			Fiscal year ended June 30, 2009		
	Assessed Valuation	Rank	Percent of Total Assessed Valuation (1)	Assessed Valuation	Rank	Percent of Total Assessed Valuation (2)
HI of Lexington, LLC	\$ 5,978,300	1	1.00%	\$ 2,872,900	3	1.01%
Central Telephone of Virginia	5,862,563	2	0.98%	7,580,109	1	2.66%
Washington and Lee University	5,432,200	3	0.90%	2,605,800	6	0.92%
Virginia Electric and Power Company	4,440,232	4	0.74%	3,368,303	2	1.18%
Lexington House Associates	4,180,200	5	0.70%	2,266,100	7	0.80%
Walker/Wood LC & Woods Family Trust	3,923,000	6	0.65%	1,932,900	9	0.68%
Rockbridge Square Associates	3,485,900	7	0.58%	2,665,700	4	0.94%
HCMF XXII LTD Partnership	3,428,200	8	0.57%	-		
Kroger Partnership	3,330,700	9	0.55%	-		
Summit Square Partners	3,084,300	10	0.51%	-		
Eschbach Trust				2,424,500	5	0.85%
Laura and William Stearns				1,987,800	8	0.70%
IRT Property Company				1,762,500	10	0.62%
	\$ 43,145,595		7.18%	\$ 29,466,612		10.36%

(1) Total assessed valuation of real estate was \$600,832,464 as of June 30, 2009.

(2) Total assessed valuation of real estate was \$284,515,551 as of June 30, 2000.

Source: Commissioner of Revenue and Finance Department

Table 11

City of Lexington, Virginia
Property Tax Levies and Collections
Last Ten Fiscal Years

Fiscal Year	Total Tax Levy (1, 3)	Current Tax Collections (1)	Percent of Levy Collected	Delinquent Tax Collections (1)	Total Tax Collections	Percent of Total Tax Collections to Tax Levy	Outstanding Delinquent Taxes (1, 4)	Percent of Delinquent Taxes to Tax Levy
2008-09	\$ 4,842,235	\$ 4,813,870	99.41%	\$ 42,712	\$ 4,856,582	100.30%	\$ 632,988	13.07%
2007-08	4,822,549	4,669,876	96.83%	63,178	4,733,054	98.14%	734,963	15.24%
2006-07	4,434,075	4,398,602	99.20%	72,851	4,471,453	100.84%	662,871	14.95%
2005-06	3,936,642	3,780,352	96.03%	74,758	3,855,110	97.93%	568,484	14.44%
2004-05	3,787,838	3,563,524	94.08%	66,926	3,630,450	95.84%	458,027	12.09%
2003-04	3,661,319	3,557,033	97.15%	66,737	3,623,770	98.97%	543,329	14.84%
2002-03	3,542,094	3,354,320	94.70%	50,628	3,404,948	96.13%	587,249	16.58%
2001-02	3,386,498	3,318,634	98.00%	74,204	3,392,838	100.19%	590,489	17.44%
2000-01	3,261,815	3,051,139	93.54%	61,026	3,112,165	95.41%	406,996	12.48%
1999-00	3,231,767	2,895,422	89.59%	114,073	3,009,495	93.12%	443,602	13.73%

(1) Exclusive of penalties and interest.

(2) 1999-00 was the first year for personal property tax relief by the Commonwealth of Virginia.

(3) Includes original levy for 2004 real estate taxes collected on a fiscal year basis and 2005 personal property taxes collected on a calendar year basis. Also, includes supplemental levies for all tax years.

(4) Includes personal property taxes in excess of five years delinquent. Also, includes an allowance for doubtful accounts.

Source: Commissioner of Revenue and Treasurer.

Table 12

City of Lexington, Virginia
 Ratios of Outstanding Debt by Type
 Last Four Fiscal Years (1)

Fiscal Year	Governmental Activities		Business-Type Activities	Total Primary Government	Percentage of Personal Income	Per Capita
	General Obligation Bonds	State Literary Fund Loan	General Obligation Bonds			
2009	\$ 12,632,992	\$ -	\$ -	\$ 12,632,992	1.21%	\$ 1,752
2008	13,322,292	-	42,806	13,365,098	1.35%	1,841
2007	14,317,241	5,000	221,411	14,543,652	1.57%	2,158
2006	15,060,606	10,000	395,038	15,465,644	1.72%	2,282

(1) City began recording this information in 2006.

Table 13

City of Lexington, Virginia
Ratio of Net General Bonded Debt to
Assessed Value and Net Bonded Debt Per Capita
Last Ten Fiscal Years

Fiscal Year	Population (1)	Assessed Value (in thousands) (2)	Gross Bonded Debt (3)	Less: Debt Payable from Enterprise Fund	Net Bonded Debt (4)	Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt per Capita(5)
2008-09	-	\$ 634,843	\$ 12,632,992	\$ -	\$ 12,632,992	1.990%	\$ 1,752
2007-08	7,211	638,909	13,365,098	42,806	13,322,292	2.090%	1,848
2006-07	7,261	619,321	14,543,660	221,411	14,322,249	2.310%	1,972
2005-06	7,206	444,880	15,465,644	395,038	15,070,606	3.390%	2,091
2004-05	7,097	445,471	4,326,780	559,080	3,767,700	0.850%	531
2003-04	6,900	437,827	5,152,857	717,546	4,435,311	1.010%	643
2002-03	6,800	369,743	5,919,583	870,515	5,049,068	1.370%	743
2001-02	7,000	365,181	6,617,313	982,102	5,635,211	1.540%	805
2000-01	7,000	360,793	3,180,002	1,118,904	2,061,098	0.570%	294
1999-00	6,867	318,034	3,605,000	1,253,366	2,351,634	0.740%	342

(1) Center for Public Service at the University of Virginia. www.coopercenter.org, Current year population not yet available.

(2) Real property assessed at 100% of fair market value.

(3) Includes all long-term general obligation bonded debt, bonded anticipation notes, and literary fund loans. Excludes compensated absences.

(4) FY 2005-06, City issued \$12,000,000 in general obligation debt to fund the city's share of costs for a new regional circuit court complex and parking deck.

Table 14

City of Lexington, Virginia
Ratio of Annual Debt Service Expenditures for General Bonded
Debt to Total General Governmental Expenditures (1)
Last Ten Fiscal Years

Fiscal Year	Principal	Interest	Total Debt Service	Total General Governmental Expenditures (2)	Ratio of Debt Service to General Governmental Expenditures
2008-09	\$ 689,358	\$ 574,412	\$ 1,263,770	\$ 22,923,952	5.5%
2007-08	999,949	607,663	1,607,612	25,268,779	6.4%
2006-07	748,365	681,431	1,429,796	19,252,432	7.4%
2005-06	697,094	389,788	1,086,882	17,315,676	6.3%
2004-05	667,609	166,296	833,905	15,283,963	5.5%
2003-04	716,358	194,660	911,018	14,060,940	6.5%
2002-03	668,747	230,284	899,031	14,569,083	6.2%
2001-02	563,883	216,875	780,758	15,991,162	4.9%
2000-01	399,536	136,171	535,707	12,867,341	4.2%
1999-00	378,348	150,676	529,024	12,305,142	4.3%
1998-99	356,128	163,898	520,026	11,961,300	4.3%

(1) Includes General, Special Revenue, Capital Projects funds of the Primary Government and Special Revenue funds of the Discretely Presented Component Units.

(2) Information from Table 6.

Table 15

City of Lexington, Virginia
Computation of Legal Debt Margin
June 30, 2009
(amounts expressed in thousands)

	Fiscal Year									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Debt limit	\$ 28,452	\$ 32,962	\$ 33,357	\$ 33,691	\$ 40,499	\$ 41,093	\$ 41,087	\$ 58,560	\$ 60,245	\$ 60,058
Total net debt applicable to limit	4,008	3,474	6,803	6,022	5,153	4,327	15,466	14,544	13,370	12,633
Legal debt margin	24,444	29,488	26,554	27,669	35,346	36,766	25,621	44,016	46,875	47,425
Total net debt applicable to the limit as a percentage of debt limit	14.1%	10.5%	20.4%	17.9%	12.7%	10.5%	37.6%	24.8%	22.2%	21.0%
Legal Debt Margin Calculated for Fiscal Year 2009										
Assessed value	\$ 600,583									
Debt limit (10% of assessed value)	\$ 60,058									
Debt applicable to limit:										
General Obligation Bonds	12,633									
Less: amount set aside for repayment of general obligation debt	-									
Total net applicable to limit	12,633									
Legal debt margin	\$ 47,425									

Table 16

**City of Lexington, Virginia
Demographic and Economic Statistics
Last Ten Fiscal Years**

Fiscal Year	Population (1)	Personal Income (amounts expressed in thousands)(2)	Per Capita Personal Income (2)	School Enrollment (3)	Unemployment Rate (4)
2008-09	- (5)	\$ - (5)	\$ - (5)	613	12.2%
2007-08	7,211	- (5)	- (5)	615	8.3%
2006-07	7,261	1,041,089	29,712	646	5.4%
2005-06	7,206	988,969	28,442	626	5.0%
2004-05	7,097	927,803	26,936	626	5.0%
2003-04	6,900	891,371	26,165	626	2.4%
2002-03	6,800	839,032	23,612	647	2.6%
2001-02	7,000	800,258	23,383	631	2.2%
2000-01	7,000	773,603	22,547	628	2.1%
1999-00	6,867	741,220	21,770	633	1.6%

(1) Center for public service at the University of Virginia. www.coopercenter.org

(2) Bureau of Economic Analysis, United States Department of Commerce, City of Lexington, City of Buena Vista and Rockbridge County combined. [Www.bea.gov/regional/bearfacts/action.cfm](http://www.bea.gov/regional/bearfacts/action.cfm)

(3) Lexington City Schools.

(4) Virginia Employment Commission.

(5) Information unavailable.

Table 17

City of Lexington, Virginia
Principal Employers
Current Year and Nine Years Ago

Employer	Fiscal year ended June 30, 2008			Fiscal year ended June 30, 1999		
	Employment Range	Rank	% of Total City Employees (1)	Employment Range	Rank	% of Total City Employees
Washington & Lee University	1000-1499	1	22.9%	500-999	1	17.5%
Virginia Military Institute	500-999	2	12.8%	500-999	2	11.4%
Stonewall Jackson Hospital	250-499	3	5.3%	250-499	3	8.0%
Rockbridge County	100-249	4	3.6%	100-249	4	4.3%
City of Lexington	100-249	5	2.8%	100-249	5	3.5%
Lexington City Schools	50-99	6	1.9%	50-99	6	2.1%
Kroger Company	50-99	7	1.6%	50-99	7	1.9%
Heritage Hall Health Care (HCMF)	50-99	8	1.3%	50-99	8	1.4%
The VMI Foundation	50-99	9	1.2%			
Rockbridge Farmers' Co-op	50-99	10	1.1%	50-99	9	1.4%
Rockbridge Area Community Services Board				50-99	10	1.1%
Totals	<u>2,743</u>		<u>54.5%</u>	<u>2,424</u>		<u>52.5%</u>
Total City Employment	<u>5,032</u>			<u>4,616</u>		

Source: Virginia Employment Commission, Virginia Electronic Market Access (VELMA).

Table 18

City of Lexington, Virginia
Full-time Equivalent City Government Employees by Function
Last Ten Fiscal Years

Function	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Full-time Equivalent Employees as of June 30,										
General government	13	14	14	13	13	14	14	14	14	14
Public safety										
Police										
Officers	15	15	15	15	15	15	15	15	16	16
Civilians	2	2	2	2	2	2	2	2	2	2
Parking enforcement/ animal control	1	1	1	1	1	1	1	1	1	1
Public works										
Administration & maintenance	33	33	33	34	34	35	36	36	36	36
Solid waste management	11	11	11	11	11	11	11	11	11	11
Health, Education & Welfare	2	2	2	2	2	2	2	2	2	2
Community development	10	4	5	5	5	5	5	5	5	5
Utilities processing										
Water treatment	6	6	6	6	6	7	7	7	7	7
Wastewater treatment	9	9	9	9	9	9	10	10	10	10
Total	102	97	98	98	98	101	103	103	104	104

Source: Government finance department

Table 19

City of Lexington, Virginia
Operating Indicators by Function
Last Four Fiscal Years (1)

Function	Fiscal Year			
	2006	2007	2008	2009
General administration				
Business licenses issued	653	669	662	617
Public safety				
Police				
Number of calls answered	5,568	6,163	4,580	5,446
Physical arrests	247	350	346	350
Parking violations	2,036	1,818	1,217	1,502
Traffice violations	953	1,191	923	1,145
Miles Patrolled	165,332	166,629	125,240	112,217
Fire				
Number of calls answered	524	629	732	704
Inspections	83	123	138	146
Public works				
Highways and streets				
Street resurfacing (miles)	2	1	2	2
Potholes repaired	300	310	300	300
Sanitation and waste removal				
Refuse collected (tons/day)	11	11	14	12
Recyclables collected (tons/day)	5	4	6	6
Culture and recreation				
Athletic program Participants	1,356	1,618	1,536	1,498
Utilities processing				
Water				
New connections	8	12	8	9
Water main breaks	34	42	46	30
Average daily consumption (thousands of gallons)	898	889	921	903
Number of customers	2,716	2,698	2,702	2,743
Wastewater				
Average daily sewage treatment (thousands of gallons)	677	764	583	608
Community development				
Number of building permits	84	87	98	83
Building construction value (thousands)	4,032	30,914	18,520	12,858
Component unit - school board				
Education				
Students - elementary	287	313	310	308
Students - middle school	182	179	180	176
City students - joint high school	157	154	125	129
Teachers elementary & middle school	56	50	50	50
Expenditures per pupil	3,609	3,708	4,300	4,480

Source: Various city departments

(1) The city began compiling this information in 2006.

Note: Indicators are not available for the judicial administration and leisure services functions.

Table 20

City of Lexington, Virginia
Capital Asset Statistics by Function
Last Four Fiscal Years (1)

Function	Fiscal Year			
	2006	2007	2008	2009
Public safety				
Police				
Stations	1	1	1	1
Patrol units	10	12	12	12
Fire				
Stations	1	1	1	1
First aid building	1	1	1	1
Public works				
Highways and streets				
Streets (miles)	60	60	60	60
Streetlights	516	527	527	529
Traffic signal intersections	12	12	12	12
Traffic signal lights	98	98	98	98
Cemeteries Maintenance				
Cemeteries	2	2	2	2
Sanitation and waste removal				
Collection trucks	5	5	5	5
Health, education and welfare				
Hospitals	1	1	1	1
Number of hospital beds	38	38	38	38
Leisure services				
Parks acreage	37	37	37	37
Parks	8	8	8	8
Swimming Pools	1	1	2	2
Community centers	1	1	1	1
Utilities processing				
Water				
Water mains (miles)	30	30	30	30
Fire hydrants	266	268	268	268
Maximum daily capacity (thousands of gallons)	4,000	4,000	4,000	4,000
Sewer				
Sanitary sewers (miles)	40	40	40	40
Storm sewers (miles)	5	5	5	5
Maximum daily treatment capacity (thousands of gallons)	3,000	3,000	3,000	3,000
Component unit - school board				
Education				
Elementary schools	1	1	1	1
Middle schools	1	1	1	1
Jointly operated high school	1	1	1	1

Source: Various city departments

(1) The city began compiling this information in 2006.

Note: Indicators are not available for the general government, judicial administration and community development functions.

Table 21

City of Lexington, Virginia
Schedule of Joint Services Contract Billing
For the Year Ended June 30, 2009

	Volunteer Fire	Life Saving and First Aid	RARO Administration	Recreation					RARO Total	Totals
				Youth Basketball	Little League Football	Baseball and Softball	Youth Soccer	Other		
Salaries and fringe benefits	\$ -	\$ -	\$ 237,503	\$ 7,576	\$ 4,371	\$ 9,657	\$ 3,731	\$ 1,302	\$ 264,140	\$ 264,140
Contractual services	56,850	337,119	7,061	-	-	750	-	-	7,811	401,780
Other expenses	128,729	104,811	41,227	1,353	2,142	12,012	3,778	896	61,408	294,948
Totals	\$ 185,579	\$ 441,930	\$ 285,791	\$ 8,929	\$ 6,513	\$ 22,419	\$ 7,509	\$ 2,198	\$ 333,359	\$ 960,868
Less: Revenue for Operations	\$ -	\$ (324,661)	\$ (8,825)	\$ (5,105)	\$ (4,810)	\$ (11,110)	\$ (7,195)	\$ (2,850)	\$ (39,895)	\$ (364,556)
Net Expenses	\$ 185,579	\$ 117,269	\$ 276,966	\$ 3,824	\$ 1,703	\$ 11,309	\$ 314	\$ (652)	\$ 293,464	\$ 596,312
Rockbridge County participation	58.60%	61.44%	73.06%	69.46%	82.91%	75.98%	67.20%	73.01%	73.18%	66.33%
Rockbridge County share	\$ 108,750	\$ 72,050	\$ 202,351	\$ 2,656	\$ 1,412	\$ 8,593	\$ 211	\$ (476)	\$ 214,747	\$ 395,547

COMPLIANCE SECTION

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

TO THE HONORABLE MEMBERS OF CITY COUNCIL CITY OF LEXINGTON, VIRGINIA

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Lexington, Virginia, as of and for the year ended June 30, 2009, which collectively comprise the City of Lexington, Virginia's basic financial statements and have issued our report thereon dated October 31, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the City of Lexington, Virginia's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Lexington, Virginia's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Lexington, Virginia's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the City of Lexington, Virginia's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, City Council and others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.

Robertson, Farmer, Co. Associates

Christiansburg, Virginia
October 31, 2009